

TOWN OF MOREHEAD CITY, NORTH CAROLINA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Prepared by:

B. Ellen Sewell, Finance Officer
Finance Department

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INTRODUCTORY SECTION

- Letter of Transmittal
 - List of Principal Officials
 - Organizational Chart
 - GFOA Certificate of Achievement for
Excellence in Financial Reporting
-

MOREHEAD CITY NORTH CAROLINA

GERALD A. JONES, JR., Mayor

DEMUS L. THOMPSON, *Mayor Pro-Tem*

Council

GEORGE W. BALLOU

PAUL W. CORDOVA

DAVID HORTON

JOHN F. NELSON

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Morehead City, North Carolina 28557-4234
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R. RANDY MARTIN
City Manager

November 30, 2008

To The Honorable Mayor and Members of the Town Council
Morehead City, North Carolina

We are pleased to present the Comprehensive Annual Financial Report of the Town of Morehead City for the fiscal year ending June 30, 2008. State law requires that all general-purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report complies with these requirements.

The Comprehensive Annual Financial Report consists of management's representations concerning the finances of the Town. Responsibility for both the reliability of the data and the completeness and fairness of the presentations, including all disclosures, rests with the Town. To provide a reasonable basis for making these representations, management of the Town has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. We believe this financial report is complete and reliable in all material respects.

McGladrey & Pullen, LLP, a firm of independent licensed certified public accountants have audited the Town's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town for the fiscal year ending June 30, 2008 are free of material misstatement. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion on the Town's financial statements for the fiscal year ended June 30, 2008. The independent auditor's report is presented as the first component of the financial section of this report.

In addition to the independent audit of the financial statements, the Town is required to have a "Single Audit" in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and State Single Audit Implementation Act. Information related to this single audit, including the Schedule of Expenditures of Federal and State Awards, findings and recommendations, and auditors' reports on the internal control structure and compliance, are included in the Compliance Section of this report.

This Comprehensive Annual Financial Report is presented in four sections which include the introductory, financial, statistical, and compliance sections. The introductory section includes this transmittal letter, the government's organizational chart, and a list of principal officials. The financial section includes the auditors' report on the financial statements, Management's Discussion and Analysis (MD&A), the basic financial statements and related notes, the combining and individual fund financial statements and schedules, and additional financial data. The statistical section contains selected financial and demographic information. And, the compliance section presents reports and schedules required by the federal and State grantor agencies. MD&A included in the financial section fulfills a GAAP requirement that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

Description of the Town of Morehead City

Morehead City is located on the coast of North Carolina approximately 150 miles southeast of Raleigh. With a population of approximately 8,700 it is the largest incorporated town in Carteret County. Founded in 1858, this picturesque community is located on the Intercoastal Waterway and is separated from the Atlantic Ocean by a sound and a protective barrier island.

The Town combines the best of the relaxed, friendly atmosphere of a small Southern town with many amenities generally found only in larger communities that make life here both pleasurable and convenient. Residential, shopping, medical, and industrial areas surround the downtown business district, which is home to many restaurants and a renovated, working waterfront. Located in the city limits is the deep water Port of Morehead City, one of two state ports in North Carolina. Also, located in the Town is the county's 134-bed hospital, a branch of the state community college system, and the Crystal Coast Civic Center. The Town is forty-five minutes away from the closest commercial airport and fifteen minutes from the county airport, which services private planes.

The Town of Morehead City operates under the Council-Manager form of government. The Town Council is comprised of the mayor and five council members who are responsible for the legislative affairs of the Town. They are elected at large and serve for two-year and four-year terms, respectively. The Mayor and Council make appointments to various boards and appoint the City Manager, City Attorney, City Clerk, and Tax Collector. As chief executive officer, the City Manager is responsible for enforcement of all laws and ordinances, the efficient delivery of all Town services, and the preparation and management of the budget.

The Town provides a full range of governmental services, including police and Fire/EMS protection, street construction and maintenance, planning and zoning and building inspections, cemetery, parks and recreation, and a library. In addition to general governmental activities, the Town provides water and sanitary sewer and a comprehensive solid waste program.

The estimated 2008 population for the Town of 8,700 represents a 3.6 percent increase from the 2007 estimated population of 8,400. The Town encompasses approximately seven square miles and employees 146 full time permanent staff. Although the rate of growth has slowed somewhat from prior years, all indications are that economic growth in the area will continue.

Economic Conditions and Outlook

The information in the financial statements may be best understood when considered in the context of the environment in which the Town operates. Morehead City is located in a rural coastal county. The major industries are tourism and fishing. The main attractions are the area's beaches and water related activities.

The county also enjoys a number of historical sites that serve as destinations for individuals and groups. The county's economy, while seasonal, is stabilized by being in close proximity to two Marine Corp bases and air stations at Cherry Point and Camp Lejeune, which provide substantial employment for the county. Each of these installations has experienced growth in force strength and this growth is scheduled to continue. Both Carteret County and Morehead City play host to a growing marine science community. The NC State University Marine Sciences and Technology Center, UNC-Chapel Hill Institute of Marine Sciences, and the NC Division of Marine Fisheries are located in Morehead City. The Duke University Marine Laboratory and the NOAA National Marine Fisheries Service are located just outside of the city limits of the Town. The lack of dependence on manufacturing and high tech jobs has helped the area avoid many of the negative economic situations that faced other communities for the past several years. The community had a 4.6% unemployment rate in June 2008 compared to 6.2% statewide and 5.7% nationally (not seasonally adjusted).

All indications are that the Town and the county will continue the growth experienced in recent years. The area has a mild climate and is attractive to retirees and second homeowners. The value of new construction permitted in the Town limits and the extraterritorial jurisdiction in 2007 was \$44.1 million. This growth expands our tax base and property taxes, one of our largest revenue sources. Also, expansion of a natural gas pipeline in the county, which began in 2004, is seen as an economic opportunity to attract new industry to the area and expand and diversify the job market and further expand the tax base.

The Town closely monitors its resources and has emphasized program efficiencies and other cost containment efforts, allowing strong financial positions to be maintained. We believe that the improving economic environment in this area along with the diligent management of the Town's costs and services will provide ongoing financial stability and fiscal capacity.

The Budget Process

The annual budget serves as the foundation of the Town's financial planning and control. All Town departments submit requests for appropriation to the City Manager to begin the budget process each year. These requests are used to create a final proposed budget, which the City Manager presents to the Town Council for review no later than June 1. The Town Council is required to hold a public hearing on the proposed budget and to adopt a final budget no later than June 30, the close of the Town's fiscal year. The appropriated budget is prepared by fund, function, (e.g. public safety), and department (e.g. Police). The City Manager may make transfers of appropriations, excluding contingency funds, within a function without Town Council approval. Use of contingency funds and transfers between functions within a fund or between funds require approval of the Town Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an annual budget has been adopted. For the general and the fire/EMS funds, this comparison is presented as part of the basic financial statements for the governmental funds. The budget-to-actual comparisons for all other governmental funds, and the enterprise funds, are presented in the individual fund sections of this report. This includes project-length budget-to-actual comparisons for funds for which project-length budgets have been adopted.

Major Initiatives

One of the goals of the current administration has been to develop programs and pursue projects that upgrade facilities and enhance the quality of life for citizens and visitors through the cooperative efforts of governmental units, the business community, nonprofit organizations, and individual citizens. The 2007-2008 major initiatives undertaken to meet this goal included acquisition of docks for transient boaters, planning and design of a combined Town police station/County E911 communications center, renovation of the library building, construction of a new public works building, and improvement of recreation facilities. Nine new full-time and several new part-time positions were added in the operating funds in order to meet

service demands for an expanding population. The Fire/EMS operation benefited from the purchase of a new fire engine and the addition of four of the new full-time positions. A fire fighter training academy was developed in conjunction with the local community college. And, in the Water/Sewer Fund construction of a new wastewater treatment plant and other system improvements continued. More detail on each of these follows.

The Town worked with the downtown revitalization agency on a project to acquire docks for transient boaters traveling the Intercoastal Waterway. A bath house/laundry facility to enhance this project was in the design process at fiscal year end. The purpose of the project is to encourage economic development in the traditional downtown area. The Town in conjunction with Carteret County is in the design phase of the renovation of a building that the Town purchased last year which will serve as a combined police station/County E911 dispatch and emergency operations center. This project will provide cost efficiencies to both Town and County residents. Upon completion, the County will have the operating capacity to provide countywide dispatch service to all public safety agencies and eliminate personnel and equipment redundancies that currently exist. The building will include a "hardened" section that will better assure dispatch and other services during weather and other emergency events. The Town acquired a new 6,600 square foot engineered, prefabricated metal public works building. The building houses offices and equipment and allowed the operation to move from an old, outmoded building which did not adequately serve its needs. The fourth and final phase of improvements to the downtown area which included replacement of sidewalks, provided pedestrian level lighting, installed landscaping, and generally upgraded the aesthetics of a two-block area in what has traditionally known as the heart of Morehead City was completed during the year. Four full-time positions and one part-time position were authorized in the Police Department. The Street Department gained one full-time and one part-time position.

Recreation opportunities were enhanced by a variety of projects. Restrooms were modernized at a site where a fishing pier and overlook had been previously constructed. These improvements are part of an ongoing plan to enhance facilities and public water access at this location. The facility has been extremely popular and planned future improvements include boat ramps and a pier extension. Other recreation improvements included renovation of the gymnasium and restrooms, upgrading electrical service, and the creation of a concession area at the Recreation Center. These improvements were complete at fiscal year end while exterior improvements including reworking of the fields were still in progress. The Town acquired additional property during the year, completed the design, and began land clearing for the construction of a baseball park. These recreation-related projects were financed through a combination of grants and Town funding. Improvements to meet ADA standards, maintain building integrity, and relocate the circulation desk were made at the library. This building was originally constructed for other purposes and was operated for many years as a private library. The Town assumed responsibility for its operation several years ago and has since worked to upgrade the building, which now provides a public library for the citizens of Morehead City.

Fire/EMS services were enhanced through the purchase of a new fire engine and the addition of four new positions. One position provides the department's first ever-administrative support while the other three allow for medical quick response from a station not served by an ambulance. Also during the year the department initiated the development of the Crystal Coast Fire Academy in conjunction with Carteret Community College. The academy provides intensive fire-fighter training in a twenty- week period including classroom and intern service experience. The Town provided a building used as a dormitory and training facility. The program benefits the public by providing fire-fighter training locally. The Town benefits by having trained personnel available for hire and/or to serve as volunteers. The first class graduated in the summer of 2008.

Construction continued on a new tertiary wastewater treatment plant capable of treating 2.5 million gallons per day. Construction began in March, 2007 and the plant is expected to be operational in January, 2009.

The plant was designed to exceed current state standards for discharge and will also provide reuse/irrigation water as well as Class A sludge that can be used in gardens and lawns as a soil supplement. Ultraviolet disinfection will be used to treat the water without chemicals. This project is anticipated to cost almost \$16 million. Funding is from a combination of federal and state low interest loan funds as well as local funds. Extension of water and sewer lines continued during the year to loop lines serving current customers and to expand service to new development in recent voluntarily annexed areas. Several of these projects were undertaken cooperatively with developers. The Town's policy calls for developers to pay for the cost of extensions for their developments. The Town participates by paying for over sizing of lines where appropriate to accommodate anticipated future growth. The Water/Sewer Fund gained one full-time position.

For the Future

The Town Council adopted the fiscal year 2008-2009 budget in June 2008. The budget maintained the tax rate of \$.22 per \$100 of valuation. Rates for solid waste service increased 6% or \$1 per month. This is the first increase in nine years. Water and sewer rates were budgeted to increase 7 percent at midyear.

The 2008-2009 budget includes a staffing increase in the Water/Sewer operating fund. A new position was budgeted to begin in January, 2009 at the time the new wastewater treatment plant is scheduled to go online. Two positions previously authorized in the Police Department that were to be grant funded were eliminated because the grant did not come to fruition. All other positions were maintained. For full-time employees the merit pool and all other compensation and benefit plans were continued.

Capital improvements in the 2008-2009 budget focus on a variety of projects. In the General Fund these include construction of a the bathhouse/laundry building mentioned above to service docks for transient boaters, sidewalk improvements, acquisition of essential new or replacement vehicles and equipment, and additional improvements to the library building. Funding was approved in the Fire/EMS Fund for the acquisition of land for the future relocation of an aging Fire/EMS station and for new equipment and a replacement vehicle. The Water and Sewer Fund budget includes additional new equipment that will contribute to operational efficiency and provide better customer information, as well as funding for ongoing line extensions and sliplining and the replacement of aging vehicles. And, as discussed previously, construction of the wastewater treatment plant is expected to be complete in January, 2009.

Cash Management

The Town utilizes a cash management policy that requires full investment of cash. Funds needed for immediate use are on deposit in an interest-bearing checking account. Amounts in excess of current needs may be invested in certificates of deposit or the North Carolina Capital Management Trust.

The Town's policy is to invest in instruments that minimize risk while assuring liquidity and maintaining a competitive yield. Accordingly, time deposits were made only with financial institutions that maintained principal offices in North Carolina. These amounts were either covered by federal deposit insurance or collateralized by securities held by an agent of the North Carolina State Treasurer.

Overall economic conditions have resulted in a decline in investment yields and earnings. In addition, the Town invested some of its available cash in capital assets during the year. The combination of these two factors resulted in a decrease in earnings on unrestricted investments of \$151,319. The Town earned \$445,349 on all unrestricted investments for the year ended June 30, 2008. The General Fund interest represents an amount approximately equal to one cent on the property tax rate.

Risk Management

The Town has a comprehensive plan for risk management. It includes a safety program with documented procedures and continual training for employees and is comparable to programs in larger entities. The result of this aspect of risk management has been a significant reduction in employee injuries, significant cost savings, and an improved work environment.

The Town utilized two (2) risk sharing pools administered by the North Carolina League of Municipalities (NCLM) to provide coverage for most risk exposures. These pools were formed through a cooperative effort of the NCLM and the state's cities and towns in the 1980's in response to an insurance market that made coverage for governmental entities difficult and expensive to purchase. The coverage offered through the NCLM pools are tailored to meet the specific needs and risks that governmental units face. The Town also purchases insurance for some needs that are outside the scope of coverage by the NCLM pools or that other carriers may better serve.

The Town utilized the North Carolina Interlocal Risk Management Agency (NCIRMA) to provide coverage against risk of loss for workers' compensation claims. Liability, property, and employee bonds and crime coverage were provided through the Interlocal Risk Financing Fund of North Carolina (IRFFNC). The NCLM administers claims for both of these programs.

The Town purchased group medical coverage for Town employees, elected officials, retirees, and their covered dependents from Blue Cross Blue Shield of North Carolina. Other group coverage including dental, vision, life, and disability were provided by various companies via an arrangement with the NCLM. The Town paid the cost for full-time employees and elected officials. The Town may also pay for coverage for retirees if age and service criteria are met. Dependent coverage is available at the expense of the covered member.

Pension and Other Postemployment Benefits

The Town provides pension benefits through participation in the Local Government Employees Retirement System. Full-time general and law enforcement employees are required to join upon employment. This is a tax sheltered deferred compensation plan administered by the State of North Carolina. The Town fully funds the retirement program on an actuarial basis.

The Town funds the state mandated Law Enforcement Officers' Special Separation Allowance Plan on pay as you go basis. Actual benefits paid during the 2007-2008 fiscal year totaled \$22,172. Law enforcement officers also received a state mandated 5% Town contribution to a 401(k) deferred compensation plan and may make voluntary contributions. Participation in the 401(k) deferred compensation plan was available to general employees. General employee participation at a nominal level was required to receive the 5% contribution from the Town. The 401(k) deferred compensation plan was administered by Prudential Investment Management Services, LLC.

The Town of Morehead City also provided postretirement health care benefits to certain retirees and their dependents. At the end of the fiscal year there were ten retired employees receiving these benefits, which are currently financed on a pay as you go basis.

Additional information on the Town's pension arrangements and postemployment benefits can be found in the notes to the financial statements.

Independent Audit

The North Carolina General Statutes require the Town to provide for an annual audit of the accounts and financial transactions of the Town by a firm of independent certified public accountants. The Town Council designated McGladrey & Pullen, LLP, Certified Public Accountants, to meet these requirements and their report follows and is an integral part of this report.

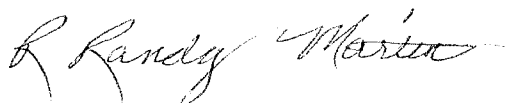
Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Town of Morehead City for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the eighteenth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. (CAFR). This report must satisfy both generally accepted accounting principles and applicable legal requirements

A Certificate of Achievement is valid for a one-year period only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine eligibility for another certificate.

The preparation of this report is the result of the desire of the Mayor and Town Council to develop the highest standards of financial reporting. We recognize their foresight in encouraging these standards. We also recognize the efficient and dedicated services of our Finance Department staff and our independent auditors in the preparation of this report.

Respectfully submitted,

A handwritten signature in cursive script that reads "R. Randy Martin".

R. Randy Martin, City Manager

A handwritten signature in cursive script that reads "B. Ellen Sewell".

B. Ellen Sewell, Finance Officer

Town of Morehead City, North Carolina

**List of Principal Officials
June 30, 2008**

Town Council

Honorable G. A. "Jerry" Jones Jr.
Mayor

Paul W. Cordova

John F. Nelson

Demus L. Thompson

George W. Ballou
Mayor Pro Tem

David A. Horton

Administration

R. Randy Martin
City Manager

Jeanne M. Giblin
City Clerk

B. Ellen Sewell
Finance Officer

David E. McCabe
Public Works Director

Wesley T. Lail
Chief, Fire & EMS Department

E. Wrenn Johnson
Chief, Police Department

Stephen C. Hamilton
Public Utilities Director

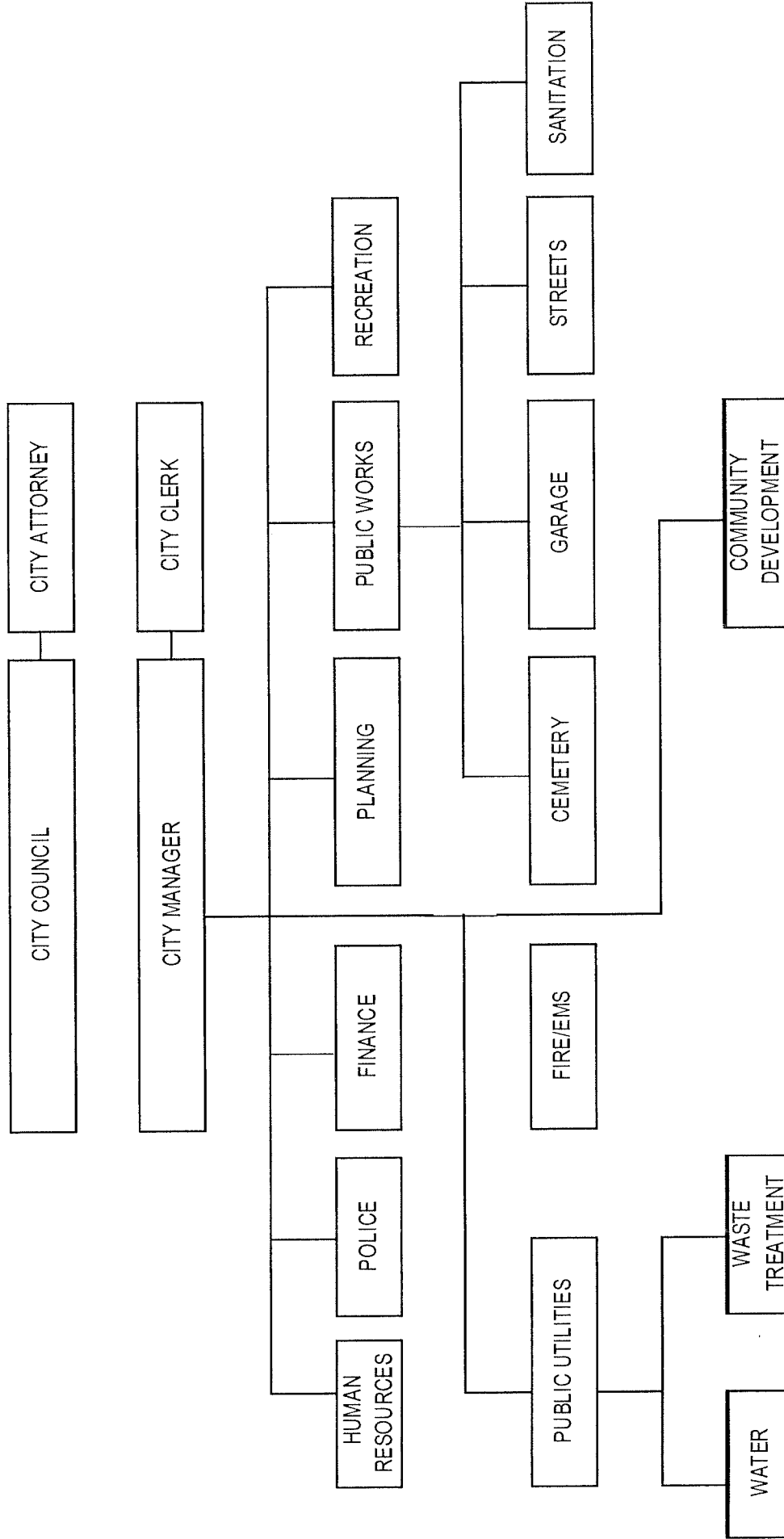
Louise B. Hughes
Parks and Recreation

Linda V. Stabb
Planning and Inspection Director

Shirl F. Meadows
Tax Collector

Susan Nixon
Human Resources Director

TOWN OF MOREHEAD CITY



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Morehead City
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

FINANCIAL SECTION

- **Independent Auditor's Report**
 - **Management's Discussion and Analysis**
 - **Basic Financial Statements**
 - **Notes to the Basic Financial Statements**
 - **Required Supplemental Financial Data**
 - **Combining and Individual Fund Statements and Schedules**
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McGladrey & Pullen

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the Town Council
Town of Morehead City
Morehead City, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Morehead City, North Carolina, as of and for the year ended June 30, 2008, which collectively comprise Town of Morehead City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Morehead City, North Carolina as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general and fire/EMS district funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2008 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employer Contributions on pages 13 through 21 and 61 through 62 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Morehead City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and statistical section, as well as the Schedule of Expenditures of Federal and State Awards (in the compliance section) as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements of Town of Morehead City, North Carolina. The combining and individual fund financial statements and schedules and the Schedule of Expenditures of Federal and State Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical section of the Comprehensive Annual Financial Report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Morehead City, North Carolina
November 30, 2008

Town of Morehead City, North Carolina

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2008

This section of the Town of Morehead City's (Town) annual financial report presents a narrative overview and analysis of the Town's financial performance for the fiscal year ended June 30, 2008. Please read it in conjunction with the transmittal letter at the front of this report and the Town's financial statements, which follow this section.

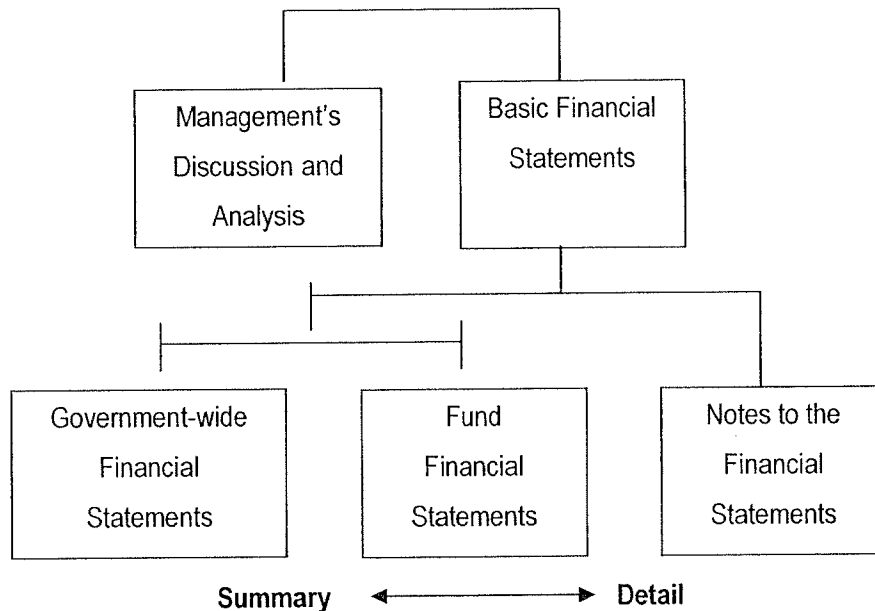
Financial Highlights

- The overall financial position of the Town improved in 2008 as evidenced by an increase in total net assets of \$4.8 million. This increase was from both governmental (\$3.3 million) and business-type (\$1.5 million) activities.
- The assets of the Town exceeded its liabilities at the close of the fiscal year by \$49.7 million (net assets). Of this amount, \$12.9 million (unrestricted net assets) can be used to meet the Town's ongoing obligations to its citizens and creditors.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$6.4 million, a decrease of \$.2 million in comparison with the prior year. Approximately 71.8 percent of this total amount, or \$4.6 million, is available for spending at the government's discretion (unreserved and undesignated fund balance).
- At the end of the current fiscal year, unreserved/undesignated fund balance for the General Fund was \$2.9 million, or 37.3 percent of total general fund expenditures.
- The Town's total debt increased by \$8.0 million during the current fiscal year. The Town borrowed \$8.7 million for system improvements in the Water and Sewer Fund and \$.3 million for a fire engine in the Fire/EMS Fund. Principal payments from governmental and business-type activities totaled \$1.0 million during the year.

Overview of the Financial Statements

This annual report consists primarily of three parts: management's discussion and analysis (this section), the basic financial statements, and a section that presents combining and individual fund statements as well as detailed budgetary comparison schedules. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. The following diagram shows how the required components of this annual report are arranged and relate to one another.

Required Components of Annual Financial Report



The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the Town's overall financial status. The remaining statements are *fund financial statements* that focus on individual parts of the Town government, reporting the Town's operations in more detail than the government-wide statements.

- The *governmental funds statements* tell how general government services, like public safety, were financed in the short term as well as what remains for future spending. A budgetary comparison statement has been provided for the General and Fire/EMS Funds to demonstrate budgetary compliance.
- *Proprietary funds statements* offer short- and long-term financial information about the activities the Town operates like businesses, such as the water and sewer system.
- The *Fiduciary fund statement* reflects the financial relationship with the Special Separation Allowance Trust Fund, which provides benefits exclusively for law enforcement Town employees.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data, and are followed by the required supplemental financial data on the Law Enforcement Officers' Special Separation Allowance. In addition to these required elements, a section is included with combining statements that provide details about nonmajor governmental funds, which are totaled and presented in a single column in the basic financial statements. This section also includes detailed budgetary information required by North Carolina General Statutes.

The remainder of this overview section explains the structure and contents of the government-wide and fund financial statements.

Government-wide Statements

The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies.

The *statement of net assets* includes all of the government's assets and liabilities except fiduciary funds. The *statement of activities* accounts for all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report the Town's net assets (the difference between assets and liabilities) and how they have changed. Over time, increases or decreases in the Town's net assets are one indicator of

whether the Town's financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Town's property tax base and the condition of the Town's roads, must be considered to assess the overall health of the Town.

The government-wide financial statements are divided into two categories:

- Governmental activities - Most of the Town's basic services are included here, such as public safety, community planning and development, streets and culture and recreation. Property taxes, other taxes, and grants and contributions finance most of these activities.
- Business-type activities - The Town charges fees to customers to cover the costs of certain services provided. The Town's water and sewer system and solid waste system are included here.

The government-wide financial statements are on pages 23 – 25 of this report.

Fund Financial Statements

The fund financial statements provide more detailed information about the Town's most significant funds, not the Town as a whole. Funds are accounting groups that the Town uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State Statutes. Other funds are established to control and manage resources designated for specific purposes.

The Town has three kinds of funds:

- Governmental funds - Most of the Town's basic services are included in governmental funds, which focus on (1) the flow in and out of cash and other financial assets that can be readily converted to cash and (2) the balances left at year-end that are available for spending in the next year. These funds are reported using the modified accrual accounting basis and a current financial resources measurement focus. Consequently, the governmental funds statements provide a detailed short-term view that helps determine the financial resources available in the near future to finance the Town's programs. The relationship between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that follows the governmental fund financial statements.

The Town adopts an annual budget for the General Fund, as required by State Statutes. A budgetary comparison statement is presented for the General Fund using the Town's budgetary basis of accounting. This statement reflects the following: (a) the original budget, (b) the final budget as amended, (c) actual resources, and (d) the variance between the final budget and actual resources. Because the Town's budgetary basis of accounting differs from the modified accrual basis used in the fund's statements, a reconciliation is included at the end of the statement.

- Proprietary funds – Services for which the Town charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The Town has one type of proprietary fund. Enterprise funds are the same as the business-type activities (shown in the Government-wide Statements), but provide more detail and additional information, such as cash flows.
- Fiduciary fund - The Town is the trustee, or fiduciary, for the Law Enforcement Officers' Special Separation Allowance Trust Fund. It is responsible for ensuring that the assets reported in this fund are used for their intended purposes. This fiduciary activity is reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. This fund is excluded from the Town's government-wide financial statements because the Town cannot use these assets to finance its operations.

The fund financial statements are on pages 26 – 37 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements begin on page 39 of this report.

Financial Analysis of the Town as a Whole

Net Assets: For the Town, assets exceeded liabilities by \$49.7 million at the close of the most recent fiscal year. A summary of the Town's net assets at June 30, 2008 and 2007 is presented below:

Town of Morehead City's Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 7,974,577	\$ 8,121,327	\$ 9,340,975	\$ 10,032,383	\$ 17,315,552	\$ 18,153,710
Capital assets	16,440,284	13,248,522	38,502,067	29,068,354	54,942,351	42,316,876
Total assets	24,414,861	21,369,849	47,843,042	39,100,737	72,257,903	60,470,586
Long-term liabilities outstanding	2,763,988	2,847,595	16,452,725	8,275,791	19,216,713	11,123,386
Other liabilities	1,007,708	1,173,558	2,329,177	3,305,818	3,336,885	4,479,376
Total liabilities	3,771,696	4,021,153	18,781,902	11,581,609	22,553,598	15,602,762
Net assets:						
Invested in capital assets, net of related debt	14,487,313	11,334,954	22,276,242	21,246,564	36,763,555	32,581,518
Restricted	44,853	17,982	-	-	44,853	17,982
Unrestricted	6,110,999	5,995,760	6,784,898	6,272,564	12,895,897	12,268,324
Total net assets	\$ 20,643,165	\$ 17,348,696	\$ 29,061,140	\$ 27,519,128	\$ 49,704,305	\$ 44,867,824

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The Town's net assets increased by \$4.8 million for the fiscal year ended June 30, 2008. However, the largest portion (74.0%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. A minor portion of the Town's net assets (.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$12.9 million (25.9%) is unrestricted.

Net assets of the governmental activities increased \$3.3 million, or 19.0 percent, to \$20.6 million. However, \$14.5 million of these net assets either are restricted as to the purposes they can be used for or are invested in capital assets (e.g. land, buildings, machinery, and equipment buildings, roads, etc.). The remaining balance of \$6.1 million is unrestricted. The unrestricted net assets are available primarily to support operations and to provide for payment of long-term debt.

The net assets of the business-type activities increased by \$1.5 million, or 5.6 percent, to \$29.1 million. These net assets will be used to finance the operations and expansion of the water, sewer, and solid waste operations.

Changes in Net Assets: The following table presents the Town's changes in net assets for the fiscal years ended June 30, 2008 and 2007:

Town of Morehead City's Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Revenue:						
Program revenue:						
Charges for services	\$ 913,169	\$ 1,084,401	\$ 4,945,108	\$ 4,593,495	\$ 5,858,277	\$ 5,677,89
Operating grants and contributions	663,617	972,946	-	-	663,617	972,94
Capital grants and contributions	797,500	277,419	1,388,956	2,593,703	2,186,456	2,871,12
General revenue:						
Property taxes	5,514,458	4,581,817	-	-	5,514,458	4,581,81
Other taxes	1,985,403	2,056,996	-	-	1,985,403	2,056,99
Grants and contributions not restricted to specific programs	998,888	819,157	-	-	998,888	819,15
Other	1,549,315	2,140,231	324,294	390,402	1,873,609	2,530,63
Total revenue	12,422,350	11,932,967	6,658,358	7,577,600	19,080,708	19,510,56
Expenses:						
General government	1,500,379	1,481,178	-	-	1,500,379	1,481,17
Public safety	5,685,970	5,070,021	-	-	5,685,970	5,070,02
Highways and streets	913,660	359,256	-	-	913,660	359,25
Culture and recreation	935,483	408,615	-	-	935,483	408,61
Interest on long-term debt	92,389	130,978	-	-	92,389	130,97
Water and sewer	-	-	4,317,521	3,586,411	4,317,521	3,586,41
Solid waste	-	-	798,825	774,657	798,825	774,65
Total expenses	9,127,881	7,450,048	5,116,346	4,361,068	14,244,227	11,811,11
Increase in net assets	3,294,469	4,482,919	1,542,012	3,216,532	4,836,481	7,699,45
Net assets, July 1	17,348,696	12,865,777	27,519,128	24,302,596	44,867,824	37,168,37
Net assets, June 30	\$ 20,643,165	\$ 17,348,696	\$ 29,061,140	\$ 27,519,128	\$ 49,704,305	\$ 44,867,82

Total government-wide revenue of \$19.1 million was primarily derived from charges for services (30.7%), property taxes (28.9%) and capital grants and contributions (11.5%). The total expenses of all programs were \$14.2 million. The expenses cover a range of services with the two largest being public safety (fire/EMS, police and building inspections) for 39.9 percent and water and sewer for 30.3 percent.

Governmental Activities

Governmental activities increased the Town's net assets by \$3.3 million, thereby accounting for 68.1 percent of the total growth in the net assets of the Town of Morehead City. Key elements of this increase are as follows:

- Property tax revenue increased 20.4 percent due to growth, the effect of a property revaluation which almost doubled real property values coupled with adoption of a tax rate slightly higher than revenue neutral, and continued diligence in the collection of property taxes.
- Other tax revenue increased 3.6 percent, another reflection of the growth of the Town.
- The Town received multiple capital grants for development of recreational facilities.
- The Town received contributed capital of \$1.1 million including infrastructure and boat docks.
- The revenue increases noted above were partially offset by significant increases in expenses in public safety, highways and streets, cultural and recreation. These increases were largely the result of increased staffing levels.

Business-type Activities

Business-type activities increased the Town of Morehead City's net assets by \$1.5 million, accounting for 31.9 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

- Revenue from the business-type activities was \$6.7 million, which included \$1.4 million in capital contributions from grants and developer contributions of water and sewer assets.
- Charges for services increased by approximately \$352,000 (7.7%) over the prior year. The increase was the combined result of increased consumption and rate increases that became effective during the second half of the fiscal year.
- The above increases were partially offset by an increase of approximately \$755,000 (17.3%) in expenses primarily due to system repairs and maintenance and improvements that did not meet the capitalization threshold.

Financial Analysis of the Town's Funds

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Town of Morehead City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Morehead City's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town of Morehead City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$3.0 million, while total fund balance was \$4.3 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 38.5 percent of total General Fund expenditures of \$7.9 million, while total fund balance represents 54.9 percent of that same amount.

At June 30, 2008, the governmental funds of the Town of Morehead City reported a combined fund balance of \$6.4 million, down from \$6.6 million the previous year. The fund balance in the Fire/EMS Fund increased \$.5 million due primarily to increased property tax revenue and a reduction in capital outlay expenditures compared to the previous year.

General Fund Budgetary Highlights. During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services and acquire capital assets.

Total revenue exceeded the final budget by approximately \$126,000. The most significant favorable variances were in local option sales and other unrestricted intergovernmental taxes and sales and services. Expenditures were well managed, and the Town was able to comply with its budgetary requirements in all categories. The most significant favorable variances were the result of timing delays in expenditures associated with projects and efficiencies achieved in the completion of several projects.

Proprietary Funds. Proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at the end of the year total \$6.4 million in the Water and Sewer fund and \$.3 million in the Solid Waste fund. Unrestricted net assets in the Water and Sewer Fund grew approximately \$.5 million. The Solid Waste Fund remained flat. Other factors concerning the finances of these funds were addressed in the discussion of the business-type activities.

Capital Asset and Debt Administration

Capital Assets. At June 30, 2008, the Town had \$54.9 million (net of accumulated depreciation) in capital assets consisting primarily of buildings, improvements other than buildings, water and sewer operating plant and infrastructure. This amount represents a net increase of \$12.6 million, or 29.8%, over last year. The summary of capital assets at June 30, 2008 and 2007 is presented below:

Town of Morehead City's Capital Assets (Net of depreciation)

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Land	\$ 3,549,954	\$ 3,427,253	\$ 293,042	\$ 278,001	\$ 3,842,996	\$ 3,705,254
Infrastructure	3,369,104	2,530,138	-	-	3,369,104	2,530,138
Buildings and other improvements	6,558,864	5,170,542	68,893	74,636	6,627,757	5,245,178
Equipment and vehicles	2,129,541	1,762,898	762,878	260,225	2,892,419	2,023,123
Operating plant	-	-	25,089,104	23,932,924	25,089,104	23,932,924
Construction in progress	832,821	357,691	12,288,150	4,522,568	13,120,971	4,880,259
Total	\$ 16,440,284	\$ 13,248,522	\$ 38,502,067	\$ 29,068,354	\$ 54,942,351	\$ 42,316,876

This year's major capital asset additions included:

- Water and sewer system improvements - \$2.3 million
- Water and sewer construction in progress - \$7.8 million
- Buildings and other improvements - \$1.4 million

More detailed information about the Town's capital assets is presented in Note 6 of the basic financial statements.

Long-term Debt. At June 30, 2008, the City had \$18.6 million of debt outstanding in installment purchases, capital leases and loans from the State of North Carolina and US Department of Agriculture (USDA). Details by type of debt are presented in the following table:

Town of Morehead City's Outstanding Debt

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Installment contracts	\$ 1,841,615	\$ 1,954,748	\$ 2,593,358	\$ 2,951,335	\$ 4,434,973	\$ 4,906,083
Capital leases	10,965	21,245	-	-	10,965	21,245
Notes payable	363,553	370,412	13,811,891	5,283,522	14,175,444	5,653,934
Total	\$ 2,216,133	\$ 2,346,405	\$ 16,405,249	\$ 8,234,857	\$ 18,621,382	\$ 10,581,262

The Town of Morehead City's total long-term debt increased by \$8.0 million (76.0%) during the past fiscal year. New debt of \$.3 million was issued by the governmental funds during the year for the purchase of a fire engine and \$.5 million of principal was paid on previously outstanding debt. \$8.7 million was borrowed for business-type activities. This increase was for the ongoing construction of the new wastewater treatment facility. Principal of \$.5 million was paid on business-type previously outstanding debt. All scheduled debt service payments were made timely.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Morehead City is \$176,350,885.

More detailed information about the Town's long-term obligations is presented in Note 8 of the basic financial statements.

Economic Factors and Next Year's Budget and Rates

The following economic indicators impact the Town's budget outlook:

- During calendar year 2007, 388 permits were issued with a value of \$44.1 million compared to \$94.4 million for 2006.
- The June 2008 unemployment rate for Carteret County was 4.6 percent compared to 6.2 percent for the state and 5.7 percent for the nation.

The following are highlights for the 2009 budgets for the governmental activities:

The general fund initial budget for 2008-2009 decreased 8.9 percent from \$10.0 million to \$9.1 million. Although indications are of continued growth in the area, it is expected to be at a slower rate than the frenzied pace of the last several years. A conservative budget approach was taken until the effects of broader economic circumstances are known. Revenue from property taxes, one of the Town's largest revenue sources, is expected to increase \$350,000 or 7.5 percent. The property tax rate of \$.22 per hundred dollars of valuation was maintained. Revenue from sales tax and other unrestricted governmental sources is expected to be flat and investment income is expected to decrease \$172,000 or 68.6 percent. On the expenditure side, the budget reduction is attributable to decreased capital spending. With few exceptions, only capital outlay related to grants or commitments in place at the prior year-end was funded. The Town had authorized six new full-time and five new part-time positions in the previous year. All positions were maintained except two in the Police Department that were to be funded from a grant that did not materialize.

The initial budget for 2008-2009 of \$3.3 million in the Fire/EMS Fund was essentially flat. The Town had authorized ten new positions in this fund over the prior two years to provide services in growth areas. All positions were maintained. Also budgeted was purchase of land for the future replacement of an existing station. This is expected to be funded through an installment purchase financing.

The following are highlights for the 2009 budgets for the business-type activities:

Continued growth, particularly in the population of second-home owners, is expected to continue to increase the water and sewer customer base. To meet customer demands and improve service, the Town budgeted for system improvements, including upgrading of a major lift station, additional line extensions, and a continuation of the ongoing sewer collection sliplining program. New and replacement vehicles and equipment were also budgeted. One new position was added. It is budgeted to be filled at midyear at the time the new waste water treatment plant becomes operational. To support these activities, a 7 percent rate increase is budgeted to take place at midyear.

The initial 2008-2009 budget for the Solid Waste Fund increased \$44,000 from the prior year. Growth in the population of second-home owners in the service area has also increased the customer base. A six percent (6%) rate increase, the first in 9 years was approved. The budget includes funding for a seasonal employee and operation of a second yard waste truck during the warm months.

Contacting the Town's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability. Questions concerning this report or requests for additional financial information should be directed to the Town of Morehead City's Finance Department, 706 Arendell Street, Morehead City, NC 28557-4234.

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Town of Morehead City, North Carolina

Statement of Net Assets
June 30, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 5,661,275	\$ 7,218,945	\$ 12,880,220
Restricted cash and investments	220,655	179,424	400,079
Receivables:			
Due from governmental agencies	1,368,053	123,185	1,491,238
Local option sales tax receivable	459,382	-	459,382
Accounts receivable	205,659	-	205,659
Taxes receivable, net	70,163	-	70,163
Accrued interest on taxes receivable	5,871	-	5,871
Customer receivables, net	-	1,148,274	1,148,274
Notes receivable	-	456,207	456,207
Inventories	19,039	117,847	136,886
Prepaid expense	61,573	-	61,573
Internal balances	(97,093)	97,093	-
Capital assets:			
Land and construction in process	4,382,775	12,581,192	16,963,967
Other capital assets, net of depreciation	12,057,509	25,920,875	37,978,384
Total assets	24,414,861	47,843,042	72,257,903
Liabilities			
Accounts payable and accrued expenses	850,605	1,759,844	2,610,449
Accrued interest payable	32,404	64,003	96,407
Unearned revenue	124,699	20,000	144,699
Customer deposits	-	485,330	485,330
Noncurrent liabilities:			
Due within one year	715,970	592,754	1,308,724
Due in more than one year	2,048,018	15,859,971	17,907,989
Total liabilities	3,771,696	18,781,902	22,553,598
Net Assets			
Invested in capital assets, net of related debt	14,487,313	22,276,242	36,763,555
Restricted for:			
Public safety	19,248	-	19,248
Other	25,605	-	25,605
Unrestricted	6,110,999	6,784,898	12,895,897
Total net assets	\$ 20,643,165	\$ 29,061,140	\$ 49,704,305

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 1,500,379	\$ 63,521	\$ 2,135	\$ -
Public safety	5,685,970	720,403	269,149	-
Highways and streets	913,660	10,472	337,333	-
Cultural and recreation	935,483	118,773	55,000	797,500
Interest on long-term debt	92,389	-	-	-
Total governmental activities	9,127,881	913,169	663,617	797,500
Business-type activities:				
Water and sewer	4,317,521	4,187,986	-	1,388,956
Solid waste	798,825	757,122	-	-
Total business-type activities	5,116,346	4,945,108	-	1,388,956
Total primary government	\$ 14,244,227	\$ 5,858,277	\$ 663,617	\$ 2,186,456

General revenue:

Taxes:

Property taxes, levied for general purpose

Local option sales tax

Other taxes

Unrestricted intergovernmental

Investment earnings, unrestricted

Miscellaneous income, unrestricted

Total general revenue

Change in net assets

Net assets-beginning

Net assets-ending

See Notes to Financial Statements.

Net (Expense) Revenue and
Changes in Net Assets

Primary Government

Governmental Activities	Business-type Activities	Total
\$ (1,434,723)	\$ -	\$ (1,434,723)
(4,696,418)	-	(4,696,418)
(565,855)	-	(565,855)
35,790	-	35,790
(92,389)	-	(92,389)
(6,753,595)	-	(6,753,595)
-	1,259,421	1,259,421
-	(41,703)	(41,703)
-	1,217,718	1,217,718
(6,753,595)	1,217,718	(5,535,877)
5,514,458	-	5,514,458
1,897,449	-	1,897,449
87,954	-	87,954
998,888	-	998,888
257,686	324,294	581,980
1,291,629	-	1,291,629
10,048,064	324,294	10,372,358
3,294,469	1,542,012	4,836,481
17,348,696	27,519,128	44,867,824
\$ 20,643,165	\$ 29,061,140	\$ 49,704,305

Town of Morehead City, North Carolina

Balance Sheet – Governmental Funds
June 30, 2008

	Major General	Major Fire/EMS District	Non-Major Governmental Funds	Totals
Assets:				
Cash and cash equivalents	\$ 3,763,026	\$ 611,598	\$ 1,286,651	\$ 5,661,275
Restricted cash equivalents	36,659	840	183,156	220,655
Receivables	1,165,795	368,290	569,172	2,103,257
Inventories	19,039	-	-	19,039
Prepaid items	-	61,573	-	61,573
Total assets	\$ 4,984,519	\$ 1,042,301	\$ 2,038,979	\$ 8,065,799
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities	\$ 371,509	\$ 41,689	\$ 275,765	\$ 688,963
Interfund payable	-	97,093	-	97,093
Unearned revenue	124,699	-	-	124,699
Deferred revenue	33,526	189,720	324,972	548,218
Accrued salaries	122,461	39,181	-	161,642
Total liabilities	652,195	367,683	600,737	1,620,615
Fund Balances:				
Reserved for restricted assets	36,659	840	183,156	220,655
Reserved for drug law enforcement	19,248	-	-	19,248
Reserved for sidewalk construction	59,662	-	-	59,662
Reserved for recreation facilities development	3,449	-	-	3,449
Reserved for inventories	19,039	-	-	19,039
Reserved for prepaid items	-	61,573	-	61,573
Reserved by State statute	1,132,269	178,570	-	1,310,839
Reserved for donations	25,605	-	-	25,605
Unreserved,				
Designated for subsequent year's expenditures	94,700	-	-	94,700
Undesignated, reported in				
General Fund	2,941,693	-	-	2,941,693
Special Revenue Funds	-	433,635	-	433,635
Capital Project Funds	-	-	1,255,086	1,255,086
Total fund balances	4,332,324	674,618	1,438,242	6,445,184
Total liabilities and fund balances	\$ 4,984,519	\$ 1,042,301	\$ 2,038,979	\$ 8,065,799

See Notes to Financial Statements.

Town of Morehead City, North Carolina

**Reconciliation of the Governmental Funds Balance Sheet to Net
Assets of Governmental Activities in the Statement of Net Assets
June 30, 2008**

Amounts reported for governmental activities in the statement of net assets are
different because:

Total fund balances for governmental funds	\$ 6,445,184
Capital assets used in governmental activities are financial resources and, therefore are not reported in the funds.	16,440,284
Liabilities for earned but deferred revenue in the fund statement.	548,218
Accrued interest on property taxes - Statement of Net Assets	5,871
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(2,763,988)
Accrued interest payable on long-term liabilities not recorded in the fund statements	<u>(32,404)</u>
	<u><u>\$ 20,643,165</u></u>

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	Major General	Major Fire/EMS District	Non-Major Governmental Funds	Totals
Revenue				
Ad valorem taxes	\$ 4,850,736	\$ 660,259	\$ -	\$ 5,510,995
Other taxes and licenses	87,954	-	-	87,954
Unrestricted intergovernmental	2,721,875	174,462	-	2,896,337
Restricted intergovernmental	675,973	-	543,569	1,219,542
Permits and fees	296,788	-	-	296,788
Sales and services	168,561	397,574	-	566,135
Investment earnings	203,816	20,841	33,029	257,686
Miscellaneous	141,204	36,787	202,105	380,096
Total revenue	9,146,907	1,289,923	778,703	11,215,533
Expenditures				
Current:				
General government	1,589,253	-	27,831	1,617,084
Public safety	3,464,178	2,409,440	75,717	5,949,335
Highways and streets	1,343,118	-	29,832	1,372,950
Library	252,676	-	-	252,676
Recreation	743,475	-	1,172,293	1,915,768
Debt service				
Principal	410,270	50,004	-	460,274
Interest	87,352	10,019	-	97,371
Total expenditures	7,890,322	2,469,463	1,305,673	11,665,458
Revenue over (under) expenditures	1,256,585	(1,179,540)	(526,970)	(449,925)
Other financing sources (uses)				
Transfers in	-	1,299,996	970,725	2,270,721
Transfers out	(2,270,721)	-	-	(2,270,721)
Debt proceeds	-	330,000	-	330,000
Total other financing sources (uses)	(2,270,721)	1,629,996	970,725	330,000
Net changes in fund balances	(1,014,136)	450,456	443,755	(119,925)
Fund balances, beginning	5,346,460	224,162	994,487	6,565,109
Fund balances, ending	\$ 4,332,324	\$ 674,618	\$ 1,438,242	\$ 6,445,184

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Reconciliation of the Statement of Revenue, Expenditures and Changes in
Fund Balance to the Statement of Activities of Governmental Funds
For the Year Ended June 30, 2008

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds \$ (119,925)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Increase in purchased capital assets, net of decrease in construction in progress	2,617,913
Depreciation expense	(520,101)

The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to increase net assets:

Loss on sale of capital assets	(4,208)
Donated capital assets	1,098,158

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Increase in deferred grant revenue	80,332
Increase in deferred EMS fees	50,246
Decrease in deferred property tax revenue	3,463

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items:

Additions to long-term liabilities	(376,665)
Retirement of long-term liabilities	460,272

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Decrease in accrued interest payable	4,984
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Total changes in net assets of governmental activities	<u>\$ 3,294,469</u>
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See Notes to Financial Statements.

Town of Morehead City, North Carolina

General Fund and Fire/EMS District Annually Budgeted Major Funds
Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2008

	General Fund			Variance with Final Budget
	Budget, Original	Budget, Final	Actual	
Revenue				
Ad valorem taxes	\$ 4,662,100	\$ 4,848,200	\$ 4,850,736	\$ 2,536
Other taxes	82,000	82,000	87,954	5,954
Unrestricted intergovernmental	2,649,400	2,654,900	2,721,875	66,975
Restricted intergovernmental	825,025	678,550	675,973	(2,577)
Permits and fees	315,000	285,000	296,788	11,788
Sales and services	161,900	135,100	168,561	33,461
Investment earnings	250,000	207,000	203,816	(3,184)
Miscellaneous	43,000	130,400	141,204	10,804
Total revenue	8,988,425	9,021,150	9,146,907	125,757
Expenditures				
Current:				
General government	2,143,750	1,800,250	1,589,253	210,997
Public safety	3,646,000	3,508,875	3,464,178	44,697
Highways and streets	1,541,600	1,482,650	1,343,118	139,532
Recreation	799,350	801,850	743,475	58,375
Library	312,700	312,700	252,676	60,024
Contingency	72,623	-	-	-
Debt service	516,402	497,702	497,622	80
Total expenditures	9,032,425	8,404,027	7,890,322	513,705
Revenue over (under) expenditures	(44,000)	617,123	1,256,585	639,462
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(924,000)	(2,270,725)	(2,270,721)	4
Debt proceeds	52,500	-	-	-
Fund balance appropriated	915,500	1,653,602	-	(1,653,602)
Total other financing sources (uses)	44,000	(617,123)	(2,270,721)	(1,653,598)
Revenue over (under) expenditures and other financing uses	\$ -	\$ -	(1,014,136)	\$ (1,014,136)
Fund balance, beginning			<u>5,346,460</u>	
Fund balance, ending			<u>\$ 4,332,324</u>	

See Notes to Financial Statements.

Fire/EMS District Fund

Budget, Original	Budget, Final	Actual	Variance with Final Budget
\$ 585,000	\$ 585,000	\$ 660,259	\$ 75,259
-	-	-	-
170,000	170,000	174,462	4,462
45,000.00	45,000	-	(45,000)
-	-	-	-
340,000	340,000	397,574	57,574
10,000	10,000	20,841	10,841
5,000	15,550	36,787	21,237
1,155,000	1,165,550	1,289,923	124,373
-	-	-	-
2,924,100	2,522,800	2,420,060	102,740
-	-	-	-
-	-	-	-
-	-	-	-
21,630	21,630	-	21,630
339,270	159,670	60,023	99,647
3,285,000	2,704,100	2,480,083	224,017
(2,130,000)	(1,538,550)	(1,190,160)	348,390
1,300,000	1,300,000	1,299,996	(4)
-	(100,000)	(92,020)	7,980
830,000	330,000	330,000	-
-	8,550	-	(8,550)
2,130,000	1,538,550	1,537,976	(574)
\$ -	\$ -	347,816	\$ 347,816
		341,928	
		\$ 689,744	

Town of Morehead City, North Carolina

Statement of Net Assets
Proprietary Funds
June 30, 2008

	Water and Sewer Fund	Solid Waste Fund	Totals
Assets			
Current assets			
Cash and cash equivalents	\$ 6,968,054	\$ 250,891	\$ 7,218,945
Restricted cash equivalents	179,424	-	179,424
Receivables	1,126,025	145,434	1,271,459
Inventories	117,847	-	117,847
Total current assets	8,391,350	396,325	8,787,675
Noncurrent assets			
Interfund receivable	97,093	-	97,093
Note receivable	456,207	-	456,207
Capital assets, net	38,458,340	43,727	38,502,067
Total noncurrent assets	39,011,640	43,727	39,055,367
Total assets	47,402,990	440,052	47,843,042
Liabilities:			
Current liabilities			
Accounts payable and accrued liabilities	1,674,423	56,136	1,730,559
Current maturities of long-term debt	558,229	-	558,229
Deferred Revenue	20,000	-	20,000
Customer deposits	485,330	-	485,330
Accrued salaries	28,087	1,198	29,285
Accrued interest payable	64,003	-	64,003
Total current liabilities	2,830,072	57,334	2,887,406
Noncurrent liabilities			
Accrued compensated absences	46,831	645	47,476
Installment notes	15,847,020	-	15,847,020
Total noncurrent liabilities	15,893,851	645	15,894,496
Total liabilities	18,723,923	57,979	18,781,902
Net assets			
Invested in capital assets, net of related debt	22,232,515	43,727	22,276,242
Unrestricted	6,446,552	338,346	6,784,898
Total net assets	\$ 28,679,067	\$ 382,073	\$ 29,061,140

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Revenue, Expenses and Changes in Fund Net Assets
 Proprietary Funds
 For the Year Ended June 30, 2008

	Water and Sewer Fund	Solid Waste Fund	Totals
Operating revenue			
Charges for sales and services	\$ 3,875,314	\$ 755,822	\$ 4,631,136
Miscellaneous	312,672	1,300	313,972
Total operating revenue	4,187,986	757,122	4,945,108
Operating expenses			
Cost of sales and services	2,871,483	786,583	3,658,066
Depreciation	1,243,642	12,242	1,255,884
Total operating expenses	4,115,125	798,825	4,913,950
Operating income (loss)	72,861	(41,703)	31,158
Nonoperating revenue (expense)			
Interest revenue	314,566	9,728	324,294
Interest expense and fiscal charges	(202,396)	-	(202,396)
Total nonoperating revenue (expense)	112,170	9,728	121,898
Capital contributions	1,388,956	-	1,388,956
Net income (loss)	1,573,987	(31,975)	1,542,012
Net assets, beginning	27,105,080	414,048	27,519,128
Net assets, ending	\$ 28,679,067	\$ 382,073	\$ 29,061,140

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2008

Page 1 of 2

	Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total
Cash Flows from Operating Activities:			
Cash received from customers	\$ 3,448,650	\$ 758,526	\$ 4,207,176
Cash paid to suppliers for goods and services	(2,045,823)	(741,852)	(2,787,675)
Cash paid to employees	(1,159,719)	(42,083)	(1,201,802)
Customer deposits	28,673	-	28,673
Net cash provided by (used for) operating activities	271,781	(25,409)	246,372
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(10,109,744)	-	(10,109,744)
Proceeds from interfund payable	92,020	-	92,020
Debt issued	8,713,860	-	8,713,860
Principal paid on long-term debt	(543,468)	-	(543,468)
Interest paid on long-term debt	(202,396)	-	(202,396)
Contributed capital	809,103	-	809,103
Net cash used for capital and related financing activities	(1,240,625)	-	(1,240,625)
Cash Flows from Investing Activities:			
Interest on investments	314,566	9,728	324,294
Net cash provided by investing activities	314,566	9,728	324,294
Net decrease in cash and cash equivalents	(654,278)	(15,681)	(669,959)
Cash and cash equivalents, beginning	7,801,756	266,572	8,068,328
Cash and cash equivalents, ending	\$ 7,147,478	\$ 250,891	\$ 7,398,369

(Continued)

Town of Morehead City, North Carolina

Statement of Cash Flows (Continued)
 Proprietary Funds
 For the Year Ended June 30, 2008

Page 2 of 2

	Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:			
Operating income (loss)	\$ 72,861	\$ (41,703)	\$ 31,158
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	1,243,642	12,242	1,255,884
Change in assets and liabilities:			
Notes receivable	41,762	-	41,762
Receivables	(176,775)	1,404	(175,371)
Inventory	63,039	-	63,039
Accounts payable and accrued liabilities	(401,356)	1,757	(399,599)
Accrued interest	(7,619)	-	(7,619)
Unearned revenue	(604,323)	-	(604,323)
Customer deposits	28,673	-	28,673
Accrued salaries	5,625	602	6,227
Accrued compensated absences	6,252	289	6,541
Net cash provided by (used for) operating activities	\$ 271,781	\$ (25,409)	\$ 246,372
Supplemental Disclosure of Non-cash Transactions:			
Donated assets	\$ 579,853	\$ -	\$ 579,853
Accounts payable for constructed capital assets	\$ 1,522,090	\$ -	\$ 1,522,090

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2008

	Special Separation Allowance Pension Trust Fund
Assets	
Cash and cash equivalents	\$ 61,310
Total assets	<u>61,310</u>
Net Assets	
Assets held in trust for pension benefits	61,310
Total net assets	<u>\$ 61,310</u>

See Notes to Financial Statements.

Town of Morehead City, North Carolina

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2008

	Special Separation Allowance Pension Trust Fund
Additions	
Contributions	\$ 43,900
Interest	2,628
Total additions	<u>46,528</u>
Deductions	
Benefits paid	<u>22,172</u>
Total deductions	<u>22,172</u>
Net increase	24,356
Net assets reserved for employees' pension benefits	
Beginning of year	<u>36,954</u>
End of year	<u><u>\$ 61,310</u></u>

See Notes to Financial Statements.

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NOTES TO THE BASIC FINANCIAL STATEMENTS

These notes are intended to communicate information necessary for a fair presentation of financial position and results of operations that are not readily apparent from, or cannot be included in, the financial statements themselves. The notes supplement the financial statements, are an integral part thereof, and are intended to be read in conjunction with the financial statements.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The Town of Morehead City was incorporated in 1858 and operates under the Council-Manager form of government. Services include police, fire and EMS, highways and streets, cultural and recreation, planning and inspections, water and sewer, solid waste disposal, and general and administrative services.

The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below.

Reporting Entity

The Town of Morehead City is a municipal corporation governed by an elected mayor and a five-member council. Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in GASB Statement No. 14, *The Financial Reporting Entity*, have been considered and the Town has no component units or entities for which it is considered to be financially accountable, and is not itself a component unit of any other government.

Basis of Presentation

Government-wide and Fund Financial Statements

The Government-wide Financial Statements (i.e. the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, intergovernmental revenue and other non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific segment or function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly classified as program revenue are reported as general revenue.

Separate Fund Financial Statements are provided for the governmental funds, proprietary funds, and fiduciary fund, even though the latter is excluded from the Government-wide Financial Statements. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the Fund Financial Statements. All remaining governmental and enterprise funds are aggregated by fund category and reported as non-major funds.

The accounts of the Town are organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures (expenses). Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Funds are used to account for the Town's general governmental activities. The Town reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, sales tax, and State shared revenues. The primary expenditures are for public safety, street maintenance and construction, parks and recreation, and general government services.

Fire and EMS District Fund - The Fire and EMS District Fund is used to account for activities of the EMS and fire department including revenue and services for districts outside of the Town limits.

The Town reports the following non-major governmental funds:

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Town has six capital project funds, the individual descriptions of which are disclosed in the supplemental non-major fund-types section.

Proprietary Funds include the following major funds:

Water and Sewer Enterprise Fund - The Water and Sewer Enterprise Fund accounts for the water and sewer activities of the Town. The primary revenue consists of user charges for services. The primary expenses are for pumping and distribution of water to and collection and treatment of sewage from the Town's customers. There are five Capital Project Funds and two Capital Reserve Funds which are consolidated with the Water and Sewer Enterprise Fund (the operating fund) for financial reporting purposes.

Solid Waste Enterprise Fund - The Solid Waste Enterprise Fund accounts for the solid waste disposal activities of the Town. The primary revenue consists of user charges for services. The primary expenses are for collection and disposal of solid waste for the Town's customers.

Additionally, the government reports the following fund types:

Fiduciary Funds account for the assets held by the Town in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Town has the following Fiduciary Fund:

Pension Trust Fund - Trust Funds are used to account for assets held in a trustee capacity. The Town maintains a pension trust fund, the Law Enforcement Officers' Pension Trust Fund. This fund accounts for the Law Enforcement Officers' Special Separation Allowance, a single-employer, public employee retirement system.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

The government-wide financial and proprietary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. Property taxes are recognized as revenue in the year for which they are levied. Revenue from grants and donations is recognized in the fiscal year in which all the eligibility requirements have been satisfied.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered available when it is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within 90 days of the end of the current fiscal period, except for property taxes. Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest from long-term debt, claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in the governmental funds. Proceeds of general long-term debt are reported as other financing sources.

The Town considers all revenue available if it is collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Therefore the net receivable amount is offset by a deferred revenue. Carteret County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County including the Town of Morehead City. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Carteret County from March 2007 through February 2008 apply to the fiscal year ended June 30, 2008. Uncollected taxes that were billed during this period are shown as a receivable in these statements and are offset by deferred revenues. Those taxes for vehicles registered from March 1, 2008 through the fiscal year-end apply to the 2008-2009 fiscal year and are not shown as receivables at June 30, 2008.

Sales taxes and certain intergovernmental revenue, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Certain other intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenue. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenue. Thus when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost reimbursement grant resources to such programs, followed by categorical block grants and then by general revenue.

Receivables for unbilled Water and Sewer Fund utility services are recorded at year-end. As permitted by GAAP, the Town has elected to apply only applicable Financial Accounting Standards Board Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its enterprise operations to the extent those standards do not conflict with or contradict guidance of the GASB.

The Town reports deferred revenue on its balance sheet for governmental funds. Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when resources are received by the Town before it has a legal claim to them, as when

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Town has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet for governmental funds and revenue is recognized.

Budgetary Data

The Town's budgets are adopted on the modified accrual basis of accounting as required by the North Carolina General Statutes. The State allows long-term interfund loans to be treated as other financing sources and uses for budgetary purposes.

The following types of budgets have been adopted by the following funds:

Annual Ordinance Funds	Project Ordinance Funds
General Fund	MATS Capital Project Fund
Fire/EMS District Fund	Baseball Park Capital Project Fund
Water and Sewer Fund	2005 Street Improvement Capital Project Fund
Solid Waste Fund	Recreation Center Capital Project Fund
Water and Sewer Capital Project Fund*	School Property Acquisition/Improvements Capital Project Fund
Water and Sewer Capital Reserve Fund*	Newport River Beach Access Capital Project Fund
Water and Sewer Rebatable	Water/Sewer Extensions Capital Project Fund*
Capital Reserve Fund*	WWTP Improvement Capital Project Fund*
	Water Treatment Capital Project Fund*
	Water Reuse Capital Project Fund*
	Automatic Meter Reading System Capital Project Fund*

*Funds considered a part of the Town's Water and Sewer Fund.

All annual appropriations lapse at the fiscal year end and project appropriations lapse at the end of the project. Expenditures may not legally exceed appropriations at the functional level for the general fund and at the fund level for all other funds. Any revisions that alter the total expenditures of any fund must be approved by the governing board. Budget amounts are as originally adopted, or as amended by the Town as of June 30, 2008. During the year, several amendments to the original budget became necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

A budget calendar is included in the North Carolina General Statutes which prescribes the last day on which certain steps of the budget procedure are to be performed. The following schedule lists the tasks to be performed and the date by which each is required to be completed:

April 30	Each department head will transmit to the budget officer the budget requests and revenue estimates for their department for the budget year.
June 1	The budget and the budget message shall be submitted to the governing board. The public hearing on the budget should be scheduled at this time.
July 1	The budget ordinance shall be adopted by the governing board.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are insured or collateralized as required by State law [G.S. 159-31]. The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT), an SEC-registered (2a-7) money market mutual fund. Investments at June 30, 2008 consist of amounts in the NCCMT which are stated at fair value, which is the NCCMT's share price.

Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash equivalents for purposes of reporting cash flows.

Restricted Cash Equivalents

The unexpended debt proceeds received by the Town to finance specific projects are classified as restricted assets for the General Fund and the Water and Sewer Enterprise Fund because their use is restricted to the purpose for which the notes were originally issued and they collateralize the associated debt.

Ad Valorem Taxes Receivable

Property (other than registered motor vehicles) is assessed for tax purposes as of January 1. The value at that date determines the basis for the tax levy for the fiscal year beginning July 1. Property taxes are not formally levied until the budget adoption (July 1) and are not due until September 1 (lien date). Taxes are past due on the following January 6. By the following June 30, taxes receivable are delinquent and are not considered a resource to finance current year operations and are recorded as deferred revenue until collected. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenue is reported net of such discounts.

Registered motor vehicles taxes are described elsewhere in Note 1.

Allowance for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on historical collection experience.

Inventories and Prepaid Items

Inventories in governmental funds are reported at cost, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. The amount is recorded as an asset, offset by a reservation of fund balance in an equal amount. Inventories of Enterprise Funds are reported at the lower of cost or market, using the first-in/first-out (FIFO) method. The inventories consist of various items used in the maintenance of existing utility systems and expansion of new systems. Depending on the eventual use of these inventories, these items may be expensed in the future as maintenance of existing systems or capitalized as a part of the development of new systems.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (short-term interfund loans) or "advances to/from other funds" (long-term interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the Fund Financial Statements, are offset by a fund balance reserve account in the applicable governmental fund to indicate that they are not available for the appropriation and are not expendable available financial resources.

Capital Assets

Capital assets, which includes land, buildings, equipment and infrastructure assets (e.g. roads, bridges, traffic signals and other similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 for equipment, vehicles, building and other improvements and \$100,000 for infrastructure and an estimated useful life in excess of one year. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated using the straight-line method over the remaining useful lives of the related fixed assets, as applicable.

Costs associated with construction in progress are recorded in their respective capital asset category upon approval by the Town Council, which approximates the completion date.

The range of estimated useful lives for the major classification of depreciable assets is as follows:

Buildings and other improvements	10 - 50 years
Operating plant	20 - 50 years
Equipment and vehicles	3 - 20 years
Infrastructure	20 - 50 years

The Town evaluates prominent events or changes in circumstances affecting capital assets to determine whether the impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the Town are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as a result of impairment events or changes in circumstances resulting in the impairment of a capital asset are netted against the impairment loss.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term liabilities are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts and issuance costs are deferred and amortized over the life of the bond using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets/Fund Balances

In the governmental fund financial statements, reservations or restrictions of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

North Carolina General Statute [G.S. 159-13(b)(16)] restricts appropriation of fund balances for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenue arising from cash receipts as these amounts stand at the close of the fiscal year preceding the budget year.

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

Reserved:

Reserved for sidewalk construction - represents fees accepted by the Town which shall be used only for the construction of sidewalks.

Reserved for drug law enforcement - portion of fund balance available for appropriation, but legally segregated for drug law enforcement expenditures. It represents the balance of unexpended funds allocated from federally forfeited property proceeds.

Reserved for recreation facilities development - represents fees accepted by the Town which shall be used only for acquiring, maintaining or improving subdivisional recreational land or facilities.

Reserved for restricted assets - portion of fund balance available for appropriation, but legally segregated by loan agreements for capital expenditures.

Reserved for inventories - represents the total amount of inventories in the General Fund.

Reserved for prepaid items - represents the total costs prepaid applicable to future accounting periods.

Reserved for donations - portion of fund balance available for appropriation, but legally segregated for general activities related to various projects by donors.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Reserved by State statute - in certain governmental funds, a portion of fund balance is thus designated as these amounts represent the portion of fund balances applicable to various assets such as accounts receivables and interfund receivables not yet realized in cash, which are not available for appropriation as defined by North Carolina General Statute.

Unreserved:

Designated for subsequent year's expenditures – portion of fund balance available for appropriation that has been designated for the adopted 2008 – 2009 budget ordinance.

Undesignated - represents the amount of fund balance which is available for future appropriations.

Compensated Absences

The Town's vacation policies provide for the accumulation of up to thirty (30) days earned vacation leave for all employees with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences, and the salary related payments are recorded as the leave is earned. For the governmental funds, the Town records the liquidation of the liability in the fund in which the underlying salary is paid, primarily the General and Fire/EMS funds.

The Town has adopted a last-in first-out method of using accumulated compensated time. The portion of the accumulated vacation pay which is expected to be liquidated in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

Statement of Cash Flows

For purposes of reporting cash flows, the Town considers all of its deposits in the pool (including restricted cash) to be cash equivalents. Proprietary fund highly liquid debt investments outside the pool are considered cash equivalents if purchased with a maturity of three months or less.

Note 2. Stewardship, Compliance and Accountability

Budgetary GAAP Reporting Reconciliation

As described in Note 1, governmental funds are budgeted on a modified accrual basis as required by North Carolina General Statutes. However, the State allows long-term interfund loans to be treated as other financing sources and uses for budgetary purposes. In addition, capital outlays are treated as prepaid expense on a budgetary basis. A budget to GAAP reconciliation for these transactions is presented as follows:

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 2. Stewardship, Compliance and Accountability (Continued)

Excess of Revenue and Financing Sources Over Expenditures
And Other Financing Uses - Fire/EMS District Fund

Budgetary basis	\$	347,816
Capital outlay treated as prepaid expense on budgetary basis		10,620
Interfund loans treated as transfers on budgetary basis		92,020
GAAP basis	\$	450,456

Deficit in Fund Balance

For the fiscal year ended June 30, 2008, the Recreation Center Capital Project Fund had a deficit in fund balance of \$78,003. This deficit is expected to be funded by grant revenue and other financing sources.

Note 3. Cash and Cash Equivalents

Petty cash: At June 30, 2008, the Town had petty cash funds on hand totaling \$1,650.

Deposits: All deposits of the Town in excess of federal depository insurance coverage are collateralized under the Pooling Method. Under this method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agent in the Town's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each Pooling Method depository. The Town has no formal policy regarding the custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At year end, the Town's deposits had a carrying amount of \$7,870,341 and bank balance of \$8,112,085. Of the bank balance, \$3,536,754 was covered by federal depository insurance, and \$4,575,331 was covered by collateral held under the Pooling Method.

Investments: At June 30, 2008, the Town had \$5,469,618 in investments which were limited to participation in the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk, interest rate risk, concentration of credit risk or custodial credit risk.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 4. Receivables

Receivables at June 30, 2008, consist of the following:

	Major General	Major Fire & Rescue Squad District	Non-Major Governmental Funds	Major Water & Sewer Fund	Major Solid Waste Fund	Total
Receivables						
Local option sales tax	\$ 459,382	\$ -	\$ -	\$ -	\$ -	\$ 459,382
Property tax	78,593	36,637	-	-	-	115,230
Allowance for uncollectibles	(45,067)	-	-	-	-	(45,067)
	33,526	36,637	-	-	-	70,163
Accounts receivable:						
Services	27,217	178,442	-	1,004,506	145,434	1,355,599
Allowance for uncollectibles	-	-	-	(1,666)	-	(1,666)
	27,217	178,442	-	1,002,840	145,434	1,353,933
Due from governmental agencies	645,670	153,211	569,172	123,185	-	1,491,238
Net total receivables	\$ 1,165,795	\$ 368,290	\$ 569,172	\$ 1,126,025	\$ 145,434	\$ 3,374,716

Note 5. Interfund Transactions and Balances

The Town transferred \$1,299,996 from the Major General Fund to the Major Fire/EMS District Fund to pay for a portion of the cost of operations of the receiving fund. Additionally, the Town transferred \$970,725 from the Major General Fund to Non-Major Governmental Funds to fund a portion of the cost of property acquisition and construction occurring in those funds.

The composition of interfund balances as of June 30, 2008 are as follows:

Receivable Fund	Amount	Payable Fund
Enterprise Fund:		
Water & Sewer Fund	97,093	Fire/EMS District Fund
	<u>\$ 97,093</u>	

Amounts loaned between funds were for the internal financing of Fire/EMS construction of a new facility.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 6. Capital Assets

Capital Asset activity for the year ended June 30, 2008, was as follows:

Primary Government

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,427,253	\$ 122,701	\$ -	\$ 3,549,954
Construction in progress	357,691	1,644,601	(1,169,471)	832,821
Total capital assets not being depreciated	3,784,944	1,767,302	(1,169,471)	4,382,775
Capital assets being depreciated:				
Buildings and other improvements	6,075,700	1,574,434	-	7,650,134
Infrastructure	2,582,058	892,094	-	3,474,152
Equipment and vehicles	4,365,081	651,712	(285,305)	4,731,488
Total capital assets being depreciated	13,022,839	3,118,240	(285,305)	15,855,774
Less accumulated depreciation for:				
Buildings and other improvements	(905,158)	(228,874)	42,762	(1,091,270)
Infrastructure	(51,920)	(53,128)	-	(105,048)
Equipment and vehicles	(2,602,183)	(238,099)	238,335	(2,601,947)
Total accumulated depreciation	(3,559,261)	(520,101)	281,097	(3,798,265)
Total capital assets being depreciated, net	9,463,578	2,598,139	(4,208)	12,057,509
Governmental activity capital assets, net	<u>\$ 13,248,522</u>			<u>\$ 16,440,284</u>

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 6. Capital Assets (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 278,001	\$ 15,041	\$ -	\$ 293,042
Construction in progress	4,522,568	9,512,648	(1,747,066)	12,288,150
Total capital assets not being depreciated	4,800,569	9,527,689	(1,747,066)	12,581,192
Capital assets being depreciated:				
Buildings and other improvements	206,548	-	-	206,548
Equipment and vehicles	716,393	600,178	(29,198)	1,287,373
Operating plant	34,207,233	2,309,042	-	36,516,275
Total capital assets being depreciated	35,130,174	2,909,220	(29,198)	38,010,196
Less accumulated depreciation for:				
Buildings and other improvements	(131,912)	(5,743)	-	(137,655)
Equipment and vehicles	(512,137)	(85,037)	28,952	(568,222)
Operating plant	(10,274,309)	(1,152,862)	-	(11,427,171)
Total accumulated depreciation	(10,918,358)	(1,243,642)	28,952	(12,133,048)
Total capital assets being depreciated, net	24,211,816	1,665,578	(246)	25,877,148
Water and Sewer Fund capital assets, net:	29,012,385			38,458,340
Solid Waste Fund				
Capital assets being depreciated:				
Equipment and vehicles	167,050	-	-	167,050
Less accumulated depreciation for:				
Equipment and vehicles	(111,081)	(12,242)	-	(123,323)
Total capital assets being depreciated, net	55,969	(12,242)	-	43,727
Solid Waste Fund capital assets, net:	55,969			43,727
Business-type activity capital assets, net:	\$ 29,068,354			\$ 38,502,067

Depreciation expense was charged to the functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 34,071
Public safety	264,261
Highway and streets	85,310
Parks and recreation	136,459
	<u>\$ 520,101</u>

Business-type activities:

Water and Sewer Fund	\$ 1,243,642
Solid Waste Fund	12,242
	<u>\$ 1,255,884</u>

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 6. Capital Assets (Continued)

Construction Commitments

As of June 30, 2008, the Town has active construction projects. The Town's commitments with contractors at June 30, 2008, are as follows:

Project	Spent to Date	Remaining Commitment
Wastewater Treatment Plant	\$ 10,877,226	\$ 2,695,774
Automatic Meter Reading System	-	1,994,426
North 6th Street Day Docks	-	41,020
North 20th Street Sidewalk (C47)	-	48,150
35th Street (MATS) Sidewalk (C54)	-	145,000
North 17th Street Improvements (C38)	23,891	22,002
Newport River Water Access Improvements	78,130	47,316
Baseball Park:		
Stormwater Control Work	45,456	523,544
Turf and Irrigation	-	268,210
Recreation Center, Exterior Work	218,102	31,100
	<u>\$ 11,242,805</u>	<u>\$ 5,816,542</u>

Note 7. Deferred/Unearned Revenue

The balance in deferred revenue on the fund statements and unearned revenue on the fund and government-wide statements at year-end is composed of the following:

	Deferred Revenue	Unearned Revenue
General Fund		
Prepaid licenses and taxes	\$ -	\$ 43,834
Prepaid fees	-	80,865
Property taxes receivable	33,526	-
	<u>33,526</u>	<u>124,699</u>
Fire/EMS Fund		
Ambulance fees receivable	156,425	-
Grant receivable	33,295	-
	<u>189,720</u>	<u>-</u>
Non-Major Governmental Funds		
Prepaid rent		
Grant receivable	324,972	-
	<u>\$ 548,218</u>	<u>\$ 124,699</u>

Note 8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Assets.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 8. Long-Term Obligations (Continued)

Changes in Long-term Liabilities – Governmental Activities

Long-term liability activity for governmental activities for the year ended June 30, 2008, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion of Balance
Accrued compensated absences	\$ 304,358	\$ 44,216	\$ -	\$ 348,574	\$ 179,561
Net pension obligation	196,832	2,449	-	199,281	-
Capital leases	21,245	-	10,280	10,965	10,965
Notes payable	370,412	-	6,859	363,553	7,142
Installment contracts	1,954,748	330,000	443,133	1,841,615	518,302
Total	<u>\$ 2,847,595</u>	<u>\$ 376,665</u>	<u>\$ 460,272</u>	<u>\$ 2,763,988</u>	<u>\$ 715,970</u>

For governmental activities, compensated absences are generally liquidated by the General Fund and Fire/EMS Fund.

The Town has a \$1,700,000 installment purchase contract to finance the construction of improvements to street and drainage conditions of the Town. In March 2005, the contract was refinanced. The agreement has a term of 15 years and is collateralized by a purchase-money deed of trust. The note bears interest at a rate of 4.39% annually. As of June 30, 2008, the remaining obligation due under this agreement totaled \$394,615.

The Town has a \$385,000 installment purchase contract to finance the acquisition of vehicles and equipment. The agreement has a term of 5 years and is collateralized by a purchase-money deed of trust. The note bears interest at a rate of 2.33% annually. As of June 30, 2008, \$37,274 remains in a restricted account and the remaining obligation due under this agreement totaled \$77,000.

The Town has a \$1,200,000 installment purchase contract to finance the construction of improvements to street and drainage conditions of the Town. The agreement has a term of 15 years and is collateralized by a purchase-money deed of trust. The note bears interest at a rate of 3.89% annually. As of June 30, 2008, \$203,749 remains in a restricted account and the remaining obligation due under this agreement totaled \$1,040,000.

The Town has a \$330,000 installment purchase contract to finance the acquisition of vehicles and equipment. The agreement has a term of 5 years and is collateralized by a purchase-money deed of trust. The note bears interest at a rate of 2.73% annually. As of June 30, 2008, the remaining obligation due under this agreement totaled \$330,000.

The Town has a \$182,000 installment note payable from USDA to finance the relocation and renovation of the historic train depot of the Town. The agreement has a term of 30 years and is collateralized by a purchase-money deed of trust. The note bears interest at a rate of 4.125% annually. As of June 30, 2008, \$10,627 remains in a restricted account and the remaining obligation due under this agreement totaled \$175,422.

The Town has a \$195,000 installment note payable from USDA to finance the relocation and renovation of the historic train depot of the Town. The agreement has a term of 30 years and is collateralized by a purchase-money deed of trust. The note bears interest at a rate of 4.125% annually. As of June 30, 2008, \$11,512 remains in a restricted account and the remaining obligation due under this agreement totaled \$188,131.

The Town has three capital lease obligations to finance the acquisition of vehicles. The agreements have terms of 48 months and are collateralized by the vehicle acquired. The leases bear interest at a rate of 6.65% annually. As of June 30, 2008, the remaining obligation under these agreements totaled \$10,965.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 8. Long-Term Obligations (Continued)

Changes in Long-term Liabilities – Business-Type Activities

Long-term liability activity for business-type activities for the year ended June 30, 2008, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion of Balance
Notes payable	\$ 5,283,522	\$ 8,713,860	\$ 185,491	\$ 13,811,891	\$ 185,491
Installment contracts	2,951,335	-	357,977	2,593,358	372,738
Accrued compensated absences	40,934	6,542	-	47,476	34,525
Total	\$ 8,275,791	\$ 8,720,402	\$ 543,468	\$ 16,452,725	\$ 592,754

The Town has a \$4,000,000 installment purchase contract to finance the acquisition and construction of improvements to the water and sewer system. It is expected to be repaid from proprietary revenue. In January 2004, the contract was refinanced. The agreement has a term of 18 years and is collateralized by a purchase-money deed of trust. The note bears interest at an annual rate of 3.99%. As of June 30, 2008, the remaining obligation due under this agreement totaled \$1,442,777.

The Town has a \$1,700,000 installment purchase contract to finance the construction of improvements to the water and sewer system. The agreement has a term of 15 years and is collateralized by a purchase-money deed of trust. The note shall bear interest at a rate of 4.45% annually. As of June 30, 2008, \$179,424 remains in a restricted account and the remaining obligation due under this agreement totaled \$1,150,581.

The Town has a \$1,700,000 installment note payable to the State of North Carolina over a 20-year term to finance the acquisition and construction of improvements to the water and sewer system. The note is payable from water and sewer revenue or sales tax distributions to the Town and bears an annual interest rate of 2.6%. As of June 30, 2008, the remaining obligation due under this agreement totaled \$1,275,000.

The Town has a \$959,333 installment note payable to the State of North Carolina over a 19-year term to finance the acquisition and construction of improvements to the water system. The note is payable from water revenue or sales tax distributions to the Town and bears an annual interest rate of 4.02%. As of June 30, 2008, the remaining obligation due under this agreement totaled \$858,351.

The Town has a \$1,000,000 installment note payable to the State of North Carolina over a 20-year term to finance the acquisition and construction of improvements to the sewer system. The note is payable from sewer revenue or sales tax distributions to the Town and bears an annual interest rate of 2.36%. As of June 30, 2008, \$1,000,000 has been drawn down and is repayable to the State. As of June 30, 2008, the remaining obligation due under this agreement totaled \$850,000.

The Town has a \$15,000,000 installment note payable to the State of North Carolina over a 20-year term to finance the construction of a new waste water treatment plant. The note is payable from sewer revenue or sales tax distributions to the Town and bears an annual interest rate of 2.265%. As of June 30, 2008, \$10,828,540 has been drawn down from the \$15,000,000 of available funds and is repayable to the State. The total remaining funds available for use is \$4,171,460. As of June 30, 2008, the remaining obligation due under this agreement totaled \$10,828,540.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 8. Long-Term Obligations (Continued)

The following table summarizes the annual requirements to amortize all long-term debt outstanding (excluding accrued compensated absences and unfunded pension contributions):

	Long-Term Debt	
	Principal	Interest
Governmental activities		
2008-2009	\$ 536,409	\$ 79,404
2009-2010	247,178	60,234
2010-2011	153,695	52,953
2011-2012	155,828	47,709
2012-2013	158,023	42,402
2014-2018	447,469	152,696
2019-2023	298,101	68,932
2024-2028	71,115	39,580
2029-2033	87,044	23,651
2034-2038	61,271	5,092
	<u>2,216,133</u>	<u>572,653</u>

	Principal	Interest
Business-type activities, Water and Sewer Fund		
2008-2009	558,229	192,836
2009-2010	1,323,893	655,314
2010-2011	1,340,068	472,920
2011-2012	1,356,918	433,663
2012-2013	1,374,385	393,788
2014-2018	5,245,422	1,496,300
2019-2023	4,677,456	877,831
2024-2028	528,878	39,394
	<u>16,405,249</u>	<u>4,562,046</u>
	<u>\$ 18,621,382</u>	<u>\$ 5,134,699</u>

Interest paid on the above obligations during 2008 totaled \$300,995. State statutes provide for a legal debt limit of 8 percent of the Town's assessed value of taxable property. The Town's legal debt margin as of June 30, 2008 amounts to \$176,350,885.

Note 9. Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. Town of Morehead City contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 9. Pension Plan Obligations (Continued)

Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.80% and 4.72%, respectively, of annual covered payroll. The contribution requirements of members and of the Town are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2008, 2007 and 2006 were \$258,729, \$231,485 and \$207,104, respectively, and were equivalent to the required amount.

Law Enforcement Officers' Special Separation Allowance

1. Plan Description.

The Town of Morehead City administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The separation allowance is reported in the Town's report as a pension trust fund and no stand-alone financial report is issued.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2007, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	40
Total	<u>41</u>

2. Summary of Significant Accounting Policies.

Basis of Accounting. Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the Town has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments. Investments are reported at fair value.

3. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits. For the current year, the Town contributed \$43,900 to the plan. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

Town of Morehead City, North Carolina

Notes to Financial Statements

Note 9. Pension Plan Obligations (Continued)

The annual required contribution for the current year was determined as part of the December 31, 2006 actuarial valuation using the projected unit credit actuarial cost method and level dollar closed amortization method (remaining period 23 years). The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.5% to 12.3% per year, and (c) inflation at 3.75%. The assumptions did not include postretirement benefit increases or cost of living adjustments.

The Town's annual pension cost and net pension obligation for the Special Separation Allowance as of June 30, 2008 are as follows:

Employer annual required contribution	\$ 44,174
Interest on net pension obligation	14,270
Adjustment to annual required contribution	(12,095)
Annual pension cost	46,349
Employer contributions made for fiscal year	43,900
Increase in net pension obligation	2,449
Net pension obligation beginning of fiscal year	196,832
Net pension obligation end of fiscal year	\$ 199,281

Fiscal Year Ended	Three-Year Trend Information			Net Pension Obligation End of Year
	Annual Pension Cost (APC)	Percentage of APC Contributed		
June 30, 2006	\$ 53,247	84.51%		\$ 200,589
June 30, 2007	46,593	108.06%		196,832
June 30, 2008	46,349	94.72%		199,281

4. Funded Status and Funding Progress.

As of December 31, 2007, the most recent actuarial valuation date, the plan was 15.15 percent funded. The actuarial accrued liability for benefits was \$440,929, and the actuarial value of assets was \$66,781, resulting in an unfunded actuarial liability (UAAL) of \$374,148.

The covered payroll (annual payroll of active employees covered by the plan) was \$1,508,655, and the ratio of the UAAL to the covered payroll was 24.8 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Supplemental Retirement Income Plan for Law Enforcement:

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental

Note 9. Pension Plan Obligations (Continued)

Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2008 were \$102,762 which consisted of \$76,296 from the Town and \$26,466 from the law enforcement officers.

Note 10. Other Post-employment Benefits

According to a Town resolution, the Town provides post-employment healthcare benefits to retirees of the Town until becoming fully covered by Medicare, provided the employee has at least ten years of creditable continuous service immediately prior to retirement and meets one of the following:

- (1) 30 years of participation in the NC LGERS and is receiving benefits, or
- (2) has attained 55 years of age and has a minimum of 25 years of participation in the NC LGERS and is receiving benefits, or
- (3) has attained 62 years of age and has a minimum of 15 years of participation in the NC LGERS and is receiving benefits.

The Town can choose to discontinue this benefit by Council approval. Currently, ten retirees are eligible for post-employment health benefits. For fiscal year ended June 30, 2008, the Town made payments for post-employment health benefit premiums of \$45,202. The Town obtains health care coverage through private insurers.

Note 11. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employee's Retirement System (Death Benefit Plan), a multiple-employer State administered cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump-sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to his/her death. Effective July 1, 2004, the death benefit payments to beneficiaries must be between \$25,000 and \$50,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State.

Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2008, the Town made contributions to the State for death benefits of \$5,162. The contributions to the Death Benefit Plan represented .08 percent and .14 percent of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

Notes to Financial Statements

Note 12. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The Town is a participant in two insurance pools administered by the North Carolina League of Municipalities. One pool (IRFFNC) provides coverage for property damage and general liability (including auto and law enforcement officers). Major policies and their limits of coverage include: public officials (\$3 million) and law enforcement liability (\$3 million), vehicle liability (\$2 million), public employee scheduled and blanket bonds (\$250,000), general liability (\$2 million), municipal equipment (\$956,427), vehicles (\$2,540,213) and property (\$32,636,631). The other pool (NCRIMA) provides workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence losses in excess of \$1,000,000 for general liability and \$500,000 for property damage, and single occurrence losses of \$500,000 for workers' compensation. The Town provides employee health insurance through Blue Cross Blue Shield up to an unlimited lifetime benefit. The Town carries commercial coverage for all other risks of loss. There has been no significant reductions in insurance coverage from the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town carries flood insurance through the National Flood Insurance Plan (NFIP). Because certain properties owned by the Town are in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the Town is eligible to purchase coverage of up to \$500,000 per structure through the NFIP. The Town is also eligible to and has purchased commercial flood insurance for \$178,100 for contents.

In accordance with G. S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$250,000 each. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

Note 13. Claims, Judgments and Contingent Liabilities

At June 30, 2008, the Town was a defendant in various lawsuits; however, no provision was made in the financial statements for any contingent liabilities. In the opinion of management and the Town attorney, the ultimate outcome of these legal matters will not have a material adverse effect on the Town's financial position.

The Town has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds as a result of future audits will be immaterial.

Note 14. Jointly Governed Organizations

The Town, in conjunction with seven counties and twenty-eight other municipalities, established the Eastern Carolina Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$2,898 to the Council during the fiscal year ended June 30, 2008.

Note 15. Pronouncements Issued, Not Yet Effective

The GASB has issued several pronouncements prior to June 30, 2008 that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the Town of Morehead City.

Notes to Financial Statements

Note 15. Pronouncements Issued, Not Yet Effective (Continued)

- GASB Statement Number 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" will be effective for the Town beginning with its year ending June 30, 2010.
- GASB Statement Number 49 "Accounting and Financial Reporting for Pollution Remediation Obligations" will be effective for the Town beginning with its year ending June 30, 2009.
- GASB Statement Number 51 "Accounting and Financial Reporting for Intangible Assets" will be effective for the Town beginning with its year ending June 30, 2010.
- GASB Statement Number 52 "Land and Other Real Estate Held as Investments by Endowments" will be effective for the Town beginning with its year ending June 30, 2009.
- GASB Statement Number 53 "Accounting and Financial Reporting for Derivative Instruments" will be effective for the Town beginning with its year ending June 30, 2010.

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REQUIRED SUPPLEMENTAL FINANCIAL DATA

This section contains additional information required by generally accepted accounting principles.

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance
 - Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance
 - Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance
-

Town of Morehead City, North Carolina

Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as Percent of Covered Payroll ((b-a)/c)
12/31/00	\$ 21,230	\$ 281,430	\$ 260,200	7.54%	\$ 1,196,150	21.75%
12/31/02	18,242	323,748	305,506	5.63%	1,264,377	24.16%
12/31/03	15,101	363,570	348,469	4.15%	1,298,332	26.84%
12/31/04	23,099	457,644	434,545	5.05%	1,270,504	34.20%
12/31/05	34,765	396,829	362,064	8.76%	1,350,793	26.80%
12/31/06	52,935	398,590	345,655	13.28%	1,453,223	23.79%
12/31/07	66,781	440,929	374,148	15.15%	1,508,655	24.80%

Town of Morehead City, North Carolina

Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Employer Contributions

1999	\$	14,163	21.18%
2000		16,744	17.92%
2001		20,080	14.94%
2002		31,008	9.67%
2003		35,338	8.48%
2004		40,318	7.44%
2005		44,838	78.06%
2006		50,349	89.38%
2007		43,862	102.59%
2008		44,174	84.51%

Notes to the Required Schedules:

The information presented in the required supplementary schedule was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	12/31/2007
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	23 years
Asset valuation method	market value
Actuarial assumptions	
Investment rate of return	7.25%
Projected salary increases	Ranging from 4.5% to 12.3%
*includes inflation at	3.75%
Cost of living adjustments	None

MAJOR GOVERNMENTAL FUNDS

- General Fund
 - Fire/EMS District Fund
-

GENERAL FUND

The General Fund is the principal fund of the Town and is used to account for all activities of the Town not included in other specific funds. The General Fund accounts for the normal recurring activities of the Town. These activities are funded principally by property and sales taxes on individuals and businesses, and grants from other governmental units.

Town of Morehead City, North Carolina

General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP)

Year Ended June 30, 2008

With Comparative Actual Amounts for Year Ended June 30, 2007

	2008			2007
	Final Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Ad valorem taxes:				
Current year	\$ 4,799,200	\$ 4,793,935	\$ (5,265)	\$ 4,088,256
Prior years	31,000	35,122	4,122	37,617
Interest and penalties	18,000	21,679	3,679	29,133
Total ad valorem taxes	4,848,200	4,850,736	2,536	4,155,006
Other taxes:				
Privilege licenses	66,000	70,030	4,030	65,939
Motor vehicle lease tax	16,000	17,924	1,924	18,211
Total other taxes	82,000	87,954	5,954	84,150
Unrestricted intergovernmental:				
Local option sales tax	1,688,000	1,722,987	34,987	1,779,655
Franchise tax fees	478,900	482,789	3,889	457,635
Beer and wine tax	37,000	38,648	1,648	37,094
Carteret County ABC revenue	92,700	92,722	22	37,901
Cable sales tax	127,900	136,788	8,888	61,411
Telecommunications tax	150,000	163,375	13,375	144,666
Piped natural gas tax	10,000	12,611	2,611	12,247
Payment in lieu of taxes	70,400	71,955	1,555	68,203
Total unrestricted intergovernmental	2,654,900	2,721,875	66,975	2,598,812
Restricted intergovernmental:				
Powell Bill	299,700	299,699	(1)	260,135
NCDOT sidewalk grant	-	-	-	10,000
NCDOT bike/pedestrian grant	-	13,340	13,340	6,660
NCDOT traffic grant	-	-	-	6,062
NCDOT train grant	-	-	-	50,000
Stormwater drainage grant	13,600	13,636	36	36,364
School resource officer	102,800	102,823	23	96,755
COPS fast grant	9,800	9,866	66	25,587
Controlled substance tax	-	14,122	14,122	4,985
Restitution drug funds	-	635	635	70
Newport River beach access grant	-	-	-	100,000
Newport River water access grant	17,250	-	(17,250)	48,402
CAMA 7th street water access grant	-	-	-	89,219
CAMA S. 11th St.	20,200	20,182	(18)	-
CAMA planning grant	-	10,500	10,500	-
CAMA	2,000	3,425	1,425	1,905
Waterfront dock maintenance dredging grant	48,000	27,604	(20,396)	-

(Continued)

Town of Morehead City, North Carolina

General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP)

Year Ended June 30, 2008

With Comparative Actual Amounts for Year Ended June 30, 2007

(Page 2 of 5)

	2008			2007
	Final Budget	Actual	Variance, with Final Budget	Actual
Mosquito control grant	\$ 8,000	\$ 10,658	\$ 2,658	\$ 5,995
Tree inventory management grant	-	-	-	6,846
Teen Court grant	49,500	50,557	1,057	43,609
Webb Library funding	55,000	55,000	-	55,000
Housing Authority grant	33,000	27,772	(5,228)	28,170
Miscellaneous police grants	19,700	16,154	(3,546)	5,489
Total restricted governmental	678,550	675,973	(2,577)	881,253
Permits and fees:				
Building permits and inspection fees	255,000	265,175	10,175	379,886
Sidewalk extension fees	10,500	10,472	(28)	46,515
Recreation development fees	-	438	438	-
Franchise fees	19,500	20,703	1,203	70,645
Total permits and fees	285,000	296,788	11,788	497,046
Sales and services:				
Court cost and fees	7,000	5,789	(1,211)	6,788
Lot cleaning fees	-	1,181	1,181	788
Cemetery fees	1,500	1,155	(345)	1,750
Recreation concessions	6,000	7,284	1,284	7,714
Sale of cemetery lots	5,000	13,250	8,250	7,750
Mail box rent and mail fees	6,500	6,942	442	6,717
Library fees and charges	3,400	25,021	21,621	4,006
Leases	20,000	21,471	1,471	21,719
Recreation fees and charges	85,700	86,468	768	114,303
Total sales and services	135,100	168,561	33,461	171,535
Investment earnings	207,000	203,816	(3,184)	284,393
Miscellaneous revenue:				
Restricted donation-recreation	24,100	24,108	8	-
Restricted donations - other	-	1,735	1,735	94,833
Vet Memorial donation	500	400	(100)	600
Insurance reimbursements/refunds	10,000	15,214	5,214	8,357
Sale of surplus property	15,000	13,262	(1,738)	1,731,551
Miscellaneous	80,800	86,485	5,685	28,251
Total miscellaneous revenue	130,400	141,204	10,804	1,863,592
Total revenue	9,021,150	9,146,907	125,757	10,535,787

(Continued)

Town of Morehead City, North Carolina

General Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP)
Year Ended June 30, 2008
With Comparative Actual Amounts for Year Ended June 30, 2007

(Page 3 of 5)

	2008		Variance, with Final Budget	2007
	Final Budget	Actual		Actual
Expenditures				
General government:				
Mayor - town council				
Salaries and benefits		\$ 25,519		\$ 32,675
Capital outlay		-		2,806
Other		5,002		7,745
	\$ 33,487	30,521	\$ 2,966	43,226
Administration:				
Salaries, wages and benefits		200,129		179,247
Other		14,123		10,722
	216,067	214,252	1,815	189,969
Finance:				
Salaries, wages and benefits		233,654		253,313
Other		11,984		22,688
	256,701	245,638	11,063	276,001
Central services:				
Employee benefits		102,979		95,330
Professional services		187,116		69,750
Capital outlay		51,046		13,859
Other		243,842		220,903
	666,097	584,983	81,114	399,842
Community projects	78,204	71,506	6,698	105,808
Cemetery, buildings and grounds:				
Salaries, wages and benefits		231,626		218,644
Capital outlay		66,905		37,933
Other		88,677		91,454
	487,200	387,208	99,992	348,031
Garage:				
Salaries, wages and benefits		39,433		41,646
Capital outlay		982		6,038
Other		14,730		14,810
	62,494	55,145	7,349	62,494
Total general government	1,800,250	1,589,253	210,997	1,425,371

(Continued)

Town of Morehead City, North Carolina

General Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP)
Year Ended June 30, 2008
With Comparative Actual Amounts for Year Ended June 30, 2007

(Page 4 of 5)

	2008		Variance, with Final Budget	2007
	Final Budget	Actual		Actual
Public safety:				
Police:				
Salaries, wages and benefits		\$ 2,495,746		\$ 2,324,531
Capital outlay		142,386		151,549
Other		353,674		305,699
	\$ 3,016,500	2,991,806	\$ 24,694	2,781,779
Inspections:				
Salaries, wages and benefits		399,527		351,718
Capital outlay		-		9,173
Other		64,706		44,275
	479,375	464,233	15,142	405,166
Federal drug forfeit funds:				
Other	13,000	8,139	4,861	6,536
Total public safety	3,508,875	3,464,178	44,697	3,193,481
Highways and streets:				
Transportation:				
Salaries, wages and benefits		421,594		365,176
Capital outlay		514,768		219,437
Other		290,620		296,715
	1,342,250	1,226,982	115,268	881,328
Powell Bill funds	140,400	116,136	24,264	113,916
Total highways and streets	1,482,650	1,343,118	139,532	995,244
Recreation:				
Salaries, wages and benefits		344,551		314,004
Capital outlay		76,252		455,444
Other		322,672		218,111
Total recreation	801,850	743,475	58,375	987,559
Library:				
Salaries, wages and benefits		70,943		65,155
Capital outlay		120,874		
Other		60,859		52,246
Total library	312,700	252,676	60,024	117,401

(Continued)

Town of Morehead City, North Carolina

General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance –

Budget and Actual (Non-GAAP)

Year Ended June 30, 2008

With Comparative Actual Amounts for Year Ended June 30, 2007

(Page 5 of 5)

	2008			2007
	Final Budget	Actual	Variance, with Final Budget	Actual
Debt service:				
Principal retirement	\$ 410,349	\$ 410,270	\$ 79	\$ 499,828
Interest fees	87,353	87,352	1	106,377
Total debt service	497,702	497,622	80	606,205
 Total expenditures	 8,404,027	 7,890,322	 513,705	 7,325,261
 Revenue over expenditures	 617,123	 1,256,585	 639,462	 3,210,526
Other financing sources (uses)				
Fund balance appropriated	1,653,602	-	(1,653,602)	-
Transfers out:				
Fire/EMS District Fund	(1,300,000)	(1,299,996)	4	(1,168,700)
Baseball Park Capital Project Fund	(710,000)	(710,000)	-	(427,000)
School Building Acquisition/Improvement Capital Project Fund	(77,725)	(77,725)	-	(1,150,000)
Recreation Grant Center Capital Project Fund			-	(316,675)
MATS Capital Project Fund	(183,000)	(183,000)	-	-
Total other financing uses	(617,123)	(2,270,721)	(1,653,598)	(3,062,375)
 Revenue and other financing sources over expenditures and other financing uses	 \$ -	 (1,014,136)	 \$ (1,014,136)	 148,151
 Fund balance, beginning		5,346,460		5,198,309
 Fund balance, ending		\$ 4,332,324		\$ 5,346,460

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FIRE/EMS DISTRICT FUND

This fund is used to account for activities of the EMS and fire department including revenues and services for districts outside of town limits.

Town of Morehead City, North Carolina

Fire/EMS District Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP)
Year Ended June 30, 2008
With Comparative Actual Amounts for Year Ended June 30, 2007

(Page 1 of 2)

	2008			2007
	Budget	Actual	Variance with Final Budget	Actual
Revenue				
Operating revenue				
Restricted - intergovernmental				
Ad valorem taxes	\$ 585,000	\$ 660,259	\$ 75,259	\$ 428,512
Local sales tax	170,000	174,462	4,462	193,191
Fema reimbursement	-	-	-	2,920
Federal grants	45,000	-	(45,000)	-
Charges for services	340,000	397,574	57,574	367,153
Total operating revenue	1,140,000	1,232,295	92,295	991,776
Investment earnings	10,000	20,841	10,841	38,605
Miscellaneous	15,550	36,787	21,237	5,386
Total revenue	1,165,550	1,289,923	124,373	1,035,767
Expenditures				
Public safety:				
Salaries, wages, and benefits	1,626,450	1,590,074	36,376	1,332,384
Other	533,400	467,678	65,722	415,690
Capital outlay	362,950	362,308	642	853,431
	2,522,800	2,420,060	102,740	2,601,505

(Continued)

Town of Morehead City, North Carolina

Fire/EMS District Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance –

Budget and Actual (Non-GAAP)

Year Ended June 30, 2008

With Comparative Actual Amounts for Year Ended June 30, 2007

(Page 2 of 2)

	2008			2007
	Budget	Actual	Variance with Final Budget	Actual
Debt service:				
Principal retirement	\$ 112,567	\$ 50,004	\$ 62,563	\$ 50,004
Interest fees	47,103	10,019	37,084	17,292
	<u>159,670</u>	<u>60,023</u>	<u>99,647</u>	<u>67,296</u>
Total expenditures	2,682,470	2,480,083	202,387	2,668,801
Revenue under expenditures	(1,516,920)	(1,190,160)	326,760	(1,633,034)
Other financing sources (uses):				
Fund balance appropriated	8,550	-	(8,550)	-
Proceeds from debt issue	330,000	330,000	-	-
Contingency	(21,630)	-	21,630	-
Operating transfer in:				
General fund	1,300,000	1,299,996	(4)	1,168,700
Operating transfer out:				
Water and Sewer fund - loan	(100,000)	(92,020)	7,980	(85,892)
Total other financing sources	1,516,920	1,537,976	21,056	1,082,808
Revenue and other financing sources over expenditures	\$ -	347,816	\$ 347,816	(550,226)
Fund balance, beginning		<u>341,928</u>		<u>892,154</u>
Fund balance, ending		<u>\$ 689,744</u>		<u>\$ 341,928</u>
Reconciliation:				
Revenues and other financing sources over expenditures, above		\$ 347,816		\$ (550,226)
Capital outlay which is prepaid expense on GAAP basis		10,620		71,347
Transfers out which are interfund loans on GAAP basis		<u>92,020</u>		<u>85,892</u>
Revenues and other financing sources over expenditures, GAAP		<u>\$ 450,456</u>		<u>\$ (392,987)</u>

NON-MAJOR GOVERNMENTAL FUNDS

Non-Major Capital Project Funds – Capital Project Funds account for all resources used for current and future acquisition and/or construction of major capital facilities by the Town except for those financed by proprietary funds. The Town has five non-major capital project funds.

- **Mayberry Loop/20th Street Park Capital Project Fund** - This fund is used to account for funds accumulated for acquisition of land and development of land for a park at Mayberry Loop Rd. and North 20th Street.
- **MATS Capital Project Fund** - This fund is used to account for funds accumulated for construction of a multi-purpose trail related to Morehead City Alternative Transportation System program.
- **Baseball Park Capital Project Fund** - This fund is used to account for funds accumulated for acquisition of land and development of a baseball park.
- **2005 Street Improvements Capital Project Fund** – This fund is used to account for funds accumulated to improve street and drainage conditions in the Town.
- **Recreation Center Capital Project Fund** - This fund is used to account for funds accumulated for renovation of the recreation facilities of the Town.
- **School Property Acquisition/Improvement Capital Project Fund** - This fund is used to account for funds accumulated for acquisition of the Charles Wallace Building and additional renovations to said property.

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Town of Morehead City, North Carolina

Non-Major Governmental Funds

Combining Balance Sheet

June 30, 2008

With Comparable Actual Amounts for 2007

	Newport River Water Access Capital Project Fund	MATS Capital Project Fund	Baseball Park Capital Project Fund
Assets:			
Cash and cash equivalents	\$ 95,898	\$ 202,604	\$ 814,404
Restricted cash equivalents	-	-	-
Due from other capital project funds	-	-	10,496
Receivables	-	-	346,919
Total assets	\$ 95,898	\$ 202,604	\$ 1,171,819
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 91,284	\$ 13,645	\$ 48,174
Due to other capital project funds	-	-	-
Unearned revenue	-	-	-
Deferred revenue	-	-	102,719
Total liabilities	91,284	13,645	150,893
Fund balances (deficits):			
Reserved for restricted assets	-	-	-
Unreserved			
Undesignated (deficit)	4,614	188,959	1,020,926
Total fund balances (deficits)	4,614	188,959	1,020,926
Total liabilities and fund balances	\$ 95,898	\$ 202,604	\$ 1,171,819

2005 Street Improvements Capital Project Fund	Recreation Center Capital Project Fund	School Property Capital Project Fund	Totals	
			2008	2007
\$ -	\$ -	\$ 173,745	\$ 1,286,651	\$ 1,020,038
183,156	-	-	183,156	361,225
-	-	-	10,496	-
-	222,253	-	569,172	277,935
<u>\$ 183,156</u>	<u>\$ 222,253</u>	<u>\$ 173,745</u>	<u>\$ 2,049,475</u>	<u>\$ 1,659,198</u>
\$ 49,238	\$ 67,507	\$ 5,917	\$ 275,765	\$ 385,306
-	10,496	-	10,496	-
-	-	-	-	1,470
-	222,253	-	324,972	277,935
<u>49,238</u>	<u>300,256</u>	<u>5,917</u>	<u>611,233</u>	<u>664,711</u>
183,156	-	-	183,156	361,225
(49,238)	(78,003)	167,828	1,255,086	633,262
<u>133,918</u>	<u>(78,003)</u>	<u>167,828</u>	<u>1,438,242</u>	<u>994,487</u>
<u>\$ 183,156</u>	<u>\$ 222,253</u>	<u>\$ 173,745</u>	<u>\$ 2,049,475</u>	<u>\$ 1,659,198</u>

Town of Morehead City, North Carolina

Non-Major Governmental Funds

Combining Statement of Revenue, Expenditures and Changes in Fund Balances

Year Ended June 30, 2008

With Comparative Actual Amounts for 2007

	Newport River Water Access Capital Project Fund	MATS Capital Project Fund	Baseball Park Capital Project Fund
Revenue			
Restricted intergovernmental	\$ 100,000	\$ -	\$ 244,200
Investment earnings	1,648	924	9,026
Miscellaneous	-	-	135,000
Total revenue	101,648	924	388,226
Expenditures			
General government	-	-	-
Capital outlay	97,034	14,002	379,101
Total expenditures	97,034	14,002	379,101
Revenue over (under) expenditures	4,614	(13,078)	9,125
Other financing sources (uses)			
Transfers outs	-	-	-
Transfers in	-	183,000	710,000
Total other financing sources	-	183,000	710,000
Revenue and other financing sources over (under) expenditures and other financing uses	4,614	169,922	719,125
Fund balance (deficit), beginning	-	19,037	301,801
Fund balance (deficit), ending	\$ 4,614	\$ 188,959	\$ 1,020,926

2005 Street Improvements Capital Project Fund	Recreation Center Capital Project Fund	School Property Capital Project Fund	2008 Totals	2007 Totals
\$ -	\$ 199,369	\$ -	\$ 543,569	\$ 15,678
6,386	9,470	5,575	33,029	49,074
-	-	67,105	202,105	3,300
6,386	208,839	72,680	778,703	68,052
-	-	23,282	23,282	-
29,832	682,156	80,266	1,282,391	2,148,630
29,832	682,156	103,548	1,305,673	2,148,630
(23,446)	(473,317)	(30,868)	(526,970)	(2,080,578)
-	-	-	-	(6,257)
-	-	77,725	970,725	1,899,932
-	-	77,725	970,725	1,893,675
(23,446)	(473,317)	46,857	443,755	(186,903)
157,364	395,314	120,971	994,487	1,181,390
\$ 133,918	\$ (78,003)	\$ 167,828	\$ 1,438,242	\$ 994,487

Town of Morehead City, North Carolina

Newport River Water Access Capital Project Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual
From Inception and for the Year Ended June 30, 2008

	Project		Actual	
	Authorization	Prior	Current	Project
		Years	Year	To Date
Revenue				
Restricted intergovernmental				
CAMA Public Acces grant	\$ 600,000	\$ -	\$ -	\$ -
Carteret County Water Access funds	500,000	-	100,000	100,000
WAMI grant	1,150,000	-	-	-
DENR/DWR Dredging grant	50,000	-	-	-
Investment earnings	-	-	1,648	1,648
Total revenue	2,300,000	-	101,648	101,648
Expenditures				
Water access improvements	2,300,000	-	97,034	97,034
Total expenditures	2,300,000	-	97,034	97,034
Revenue over expenditures	\$ -	\$ -	4,614	\$ 4,614
Fund balance, beginning			-	
Fund balance, ending			\$ 4,614	

Town of Morehead City, North Carolina

MATS Capital Project Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance –

Budget and Actual

From Inception and for the Year Ended June 30, 2008

	Project	Actual		Project
	Authorization	Prior	Current	To Date
		Years	Year	
Revenue				
Restricted intergovernmental				
NCDOT Grant	\$ 287,909	\$ 287,909	\$ -	\$ 287,909
Carteret County Grant	35,989	35,989	-	35,989
Interest earnings	4,500	4,126	924	5,050
Total revenue	328,398	328,024	924	328,948
Expenditures				
Trail improvements	914,697	711,771	14,002	725,773
Total expenditures	914,697	711,771	14,002	725,773
Revenue under expenditures	(586,299)	(383,747)	(13,078)	(396,825)
Other financing sources				
Transfers in				
Street Improvements Fund	128,000	127,485	-	127,485
General Fund	458,299	275,299	183,000	458,299
Total other financing sources	586,299	402,784	183,000	585,784
Revenue and other financing sources over expenditures	\$ -	\$ 19,037	169,922	\$ 188,959
Fund balance, beginning			19,037	
Fund balance, ending			<u>\$ 188,959</u>	

Town of Morehead City, North Carolina

Baseball Park Capital Project Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance –

Budget and Actual

From Inception and for the Year Ended June 30, 2008

	Project		Actual	
	Authorization	Prior	Current	Project
		Years	Year	To Date
Revenue				
Restricted intergovernmental				
Federal grant	\$ 250,000	\$ -	\$ 107,600	\$ 107,600
State Grant	150,000	-	136,600	136,600
Interest revenue	-	7,980	9,026	17,006
Miscellaneous revenue - donations	285,000	100,000	135,000	235,000
Total revenue	685,000	107,980	388,226	496,206
Expenditures				
Baseball park construction	1,832,000	239,436	379,101	618,537
Total expenditures	1,832,000	239,436	379,101	618,537
Revenue over (under) expenditures	(1,147,000)	(131,456)	9,125	(122,331)
Other financing sources				
Transfer from General Fund	1,137,000	427,000	710,000	1,137,000
Transfer from Mayberry/20th Street	10,000	6,257	-	6,257
Total other financing sources	1,147,000	433,257	710,000	1,143,257
Revenue and other financing sources over expenditures	\$ -	\$ 301,801	719,125	\$ 1,020,926
Fund balance, beginning			301,801	
Fund balance, ending			<u>\$ 1,020,926</u>	

Town of Morehead City, North Carolina

2005 Street Improvements Capital Project Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual
From Inception and for the Year Ended June 30, 2008

	Project Authorization	Prior Years	Actual Current Year	Project To Date
Revenue				
Interest revenue	\$ 43,400	\$ 36,596	\$ 6,386	\$ 42,982
Total revenue	43,400	36,596	6,386	42,982
Expenditures				
Capital outlay - highways and streets	1,243,400	1,079,232	29,832	1,109,064
Total expenditures	1,243,400	1,079,232	29,832	1,109,064
Revenue under expenditures	(1,200,000)	(1,042,636)	(23,446)	(1,066,082)
Other financing sources				
Debt issued	1,200,000	1,200,000	-	1,200,000
Total other financing sources	1,200,000	1,200,000	-	1,200,000
Revenue and other financing sources over (under) expenditures	\$ -	\$ 157,364	(23,446)	\$ 133,918
Fund balance, beginning			157,364	
Fund balance, ending			\$ 133,918	

Town of Morehead City, North Carolina

Recreation Center Capital Project Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual
From Inception and for the Year Ended June 30, 2008

	Project		Actual	
	Authorization	Prior	Current	Project
		Years	Year	To Date
Revenue				
Restricted intergovernmental				
State grant	\$ 468,325	\$ 15,678	\$ 199,369	\$ 215,047
Interest revenue	-	16,598	9,470	26,068
Total revenue	468,325	32,276	208,839	241,115
Expenditures				
Capital outlay - building improvements	1,100,000	268,637	682,156	950,793
Total expenditures	1,100,000	268,637	682,156	950,793
Revenue under expenditures	(631,675)	(236,361)	(473,317)	(709,678)
Other financing sources				
Transfer in from General Fund	631,675	631,675	-	631,675
Total other financing sources	631,675	631,675	-	631,675
Revenue and other financing sources				
over (under) expenditures	\$ -	\$ 395,314	(473,317)	\$ (78,003)
Fund balance, beginning			395,314	
Fund balance, ending			\$ (78,003)	

Town of Morehead City, North Carolina

School Property Acquisition/Improvement Capital Project Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual
From Inception and for the Year Ended June 30, 2008

	Project Authorization	Prior Years	Actual Current Year	Project To Date
Revenue				
Interest revenue	\$ 6,800	\$ 1,186	\$ 5,575	\$ 6,761
Miscellaneous revenue-rent	138,000	-	67,105	67,105
Total revenue	144,800	1,186	72,680	73,866
Expenditures				
General government		420	23,282	23,702
Capital outlay				
General government		995,275	4,549	999,824
Public safety		34,520	75,717	110,237
Total expenditures	1,372,525	1,030,215	103,548	1,133,763
Revenue under expenditures	(1,227,725)	(1,029,029)	(30,868)	(1,059,897)
Other financing sources				
Transfer from General Fund	1,227,725	1,150,000	77,725	1,227,725
Total other financing sources	1,227,725	1,150,000	77,725	1,227,725
Revenue and other financing sources over expenditures	\$ -	\$ 120,971	46,857	\$ 167,828
Fund balance, beginning			120,971	
Fund balance, ending			<u>\$ 167,828</u>	

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ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the government's Board is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or the government's Board has decided that periodic determination of net income is appropriate for accountability purposes.

The Town maintains two enterprise funds.

Water and Sewer Fund - This fund is used to account for the water and sewer services, and also maintains related construction projects.

Solid Waste Fund - This fund is used to account for revenues and expenditures related to waste disposal services.

Town of Morehead City, North Carolina

Water and Sewer Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

Year Ended June 30, 2008

With Comparative Actual Amounts For The Year Ended June 30, 2007

(Page 1 of 3)

	2008			2007
	Budget	Actual	Variance with Final Budget	Actual
Operating revenue:				
Charges for sales and services:				
Sewer charges	\$ 1,825,000	\$ 1,858,611	\$ 33,611	\$ 1,718,189
Water charges	1,950,000	1,978,178	28,178	1,818,559
Tap fees	44,000	38,525	(5,475)	73,640
Total charges for sales and services	3,819,000	3,875,314	56,314	3,610,388
Miscellaneous	312,000	312,672	672	321,887
Total operating revenue	4,131,000	4,187,986	56,986	3,932,275
Operating expenditures				
Cost of sales and services -				
Water, wells and pumping stations:				
Other		227,956		212,751
Capital outlay		72,688		-
Total cost of sales and services -				
water, wells and pumping stations	349,500	300,644	48,856	212,751
Cost of sales and services -				
Water distribution and sewer collection:				
Salaries, wages and employee benefits		712,672		663,220
Other		668,988		503,941
Capital Outlay		350,187		-
Total cost of sales and services - water				
distribution and sewer collection	1,790,696	1,731,847	58,849	1,167,161
Cost of sales and services -				
Lift stations and sewer mains:				
Other		109,949		108,263
Capital Outlay		-		-
Total cost of sales and services -				
lift stations and sewer mains	153,916	109,949	43,967	108,263

(Continued)

Town of Morehead City, North Carolina

Water and Sewer Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

Year Ended June 30, 2008

With Comparative Actual Amounts For The Year Ended June 30, 2007

(Page 2 of 3)

	2008			2007
	Budget	Actual	Variance with Final Budget	Actual
Cost of sales and services -				
Wastewater treatment plant:				
Salaries, wages and employee benefits		\$ 319,844		\$ 284,211
Other		273,471		211,241
Capital outlay		7,761		-
Total cost of sales and services - wastewater treatment plant	\$ 626,550	601,076	25,474	495,452
Cost of sales and services -				
Water billing and collection				
Salaries, wages and employee benefits		139,080		103,376
Other		23,477		28,537
Total cost of sales and services - water billing and collection	173,004	162,557	10,447	131,913
Total operating expenditures	3,093,666	2,906,073	187,593	2,115,540
Operating revenue over operating expenditures	1,037,334	1,281,913	244,579	1,816,735
Nonoperating revenue (expenditures)				
Interest revenue	236,850	232,941	(3,909)	260,968
Extension fees	(10,000)	-	10,000	-
Interest and fiscal charges	(213,016)	(205,398)	7,618	(220,551)
Bond and installment agreement principal payments	(543,468)	(543,468)	-	(529,160)
Total nonoperating expenditures	(529,634)	(515,925)	13,709	(488,743)
Revenue over expenditures	507,700	765,988	258,288	1,327,992

(Continued)

Town of Morehead City, North Carolina

Water and Sewer Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

Year Ended June 30, 2008

With Comparative Actual Amounts For The Year Ended June 30, 2007

(Page 3 of 3)

	2008			2007
	Budget	Actual	Variance with Final Budget	Actual
Other financing sources (uses)				
Capital contributions	\$ 46,500	\$ 48,234	\$ 1,734	\$ 46,469
Transfers in:				
Water and Sewer Rebatable Capital Reserve Fund	10,000	-	(10,000)	-
Transfers out:				
Water Treatment Capital Project Fund	(50,000)	(50,000)	-	(109,020)
Water Reuse Capital Project Fund	(227,000)	(227,000)	-	(1,000)
Auto Meter Read System Capital Project Fund	(350,000)	(350,000)	-	(37,404)
Water and Sewer Capital Project Funds	(286,000)	(247,380)	38,620	-
Fund balance appropriated	348,800	-	(348,800)	-
Total other financing uses	(507,700)	(826,146)	(318,446)	(100,955)
Revenue and other sources over expenditures and other financing uses	\$ -	\$ (60,158)	\$ (60,158)	\$ 1,227,037

Reconciliation of modified accrual basis to

full accrual basis:

Revenue and other financing sources over expenditures and other financing uses	\$ (60,158)	\$ 1,227,037
Depreciation	(1,243,642)	(1,172,911)
Bond and installment agreement principal payment	543,468	529,160
Repayment of interfund receivable by fire/EMS Fund	(92,020)	(85,892)
Capitalized expenditures included in capital outlay and other expenditures	422,875	-
Transfer to Water and Sewer Capital Project Funds	874,380	147,424
Contributed capital from note receivable	(49,008)	(47,245)
Repairs and maintenance expense from capital project funds	(388,287)	(77,409)
Contributed capital assets	579,853	705,167
Interest expense in capital project funds	3,002	-
Contributed capital	901,899	1,889,312
Interest earned from capital project funds	81,625	116,511
Net income, full accrual basis	\$ 1,573,987	\$ 3,231,154

Town of Morehead City, North Carolina

Solid Waste Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

Year Ended June 30, 2008

With Comparative Actual Amounts For The Year Ended June 30, 2007

	2008		Variance, with Final Budget	2007
	Budget	Actual		Actual
Revenue				
Operating revenue:				
Charges for sales and services:				
Refuse collections - carts	\$ 758,500	\$ 755,822	\$ (2,678)	\$ 746,916
Miscellaneous	-	1,300	1,300	196
Total operating revenue	758,500	757,122	(1,378)	747,112
Operating expenditures				
Contracted Services	619,000	609,338	9,662	588,941
Salaries, wages and employee benefits	46,650	42,974	3,676	47,030
Operating	137,050	134,271	2,779	125,098
Total operating expenditures	802,700	786,583	16,117	761,069
Operating revenue under operating expenditures	(44,200)	(29,461)	14,739	(13,957)
Nonoperating revenue				
Interest revenue	10,000	9,728	(272)	12,923
Restricted intergovernmental - FEMA	-	-	-	-
Total nonoperating revenue	10,000	9,728	(272)	12,923
Revenue under expenditures	(34,200)	(19,733)	14,467	(1,034)
Other financing sources (uses)				
Contingency	(30,000)	-	30,000	-
Fund balance appropriated	64,200	-	(64,200)	-
Total other financing sources	34,200	-	(34,200)	-
Revenue and other financing sources over (under) expenditures	\$ -	\$ (19,733)	\$ (19,733)	\$ (1,034)
Reconciliation of modified accrual basis with full accrual basis:				
Revenue over expenditures and other financing uses		\$ (19,733)		\$ (1,034)
Depreciation		(12,242)		(13,588)
Net income (loss), full accrual basis		\$ (31,975)		\$ (14,622)

Town of Morehead City, North Carolina

Water and Sewer Capital Reserve Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

Year Ended June 30, 2008

With Comparative Actual Amounts For The Year Ended June 30, 2007

	2008			2007
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Impact fees	\$ 310,000	\$ 173,512	\$ (136,488)	\$ 548,941
Interest	35,000	30,421	(4,579)	33,276
Total revenue	345,000	203,933	(141,067)	582,217
Other financing sources (uses)				
Transfers out:				
Water and sewer capital project fund	(229,000)	(108,516)	120,484	(51,442)
WWTP capital project fund	(300,000)	(300,000)	-	-
Appropriated fund balance	184,000	-	(184,000)	-
Total other financing uses	(345,000)	(408,516)	(63,516)	(51,442)
Revenue and other financing sources over (under) other financing uses	\$ -	\$ (204,583)	\$ (204,583)	\$ 530,775

Town of Morehead City, North Carolina

Water and Sewer Capital Project Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

Year Ended June 30, 2008

With Comparative Actual Amounts For The Year Ended June 30, 2007

	2008			2007
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Interest	\$ -	\$ 4,889	\$ 4,889	\$ 491
Total revenue	-	4,889	4,889	491
Expenditures				
Repair and extension	462,500	399,889	62,611	55,372
Improvements	30,000	-	30,000	-
Sewer rehab pilot	50,000	21,075	28,925	-
Land purchase	79,000	28,241	50,759	1,000
Engineering	8,000	-	8,000	-
Slip lining	100,000	59,201	40,799	52,241
SCADA/Well control system	248,000	247,380	620	(867)
Total expenditures	977,500	755,786	221,714	107,746
Revenue under expenditures	(977,500)	(750,897)	226,603	(107,255)
Other financing sources				
Transfers in:				
Water and sewer fund	286,000	247,380	(38,620)	1,000
Sewer capital reserve fund	229,000	108,516	(120,484)	51,442
Water and sewer rebatable capital reserve fund	217,000	194,899	(22,101)	55,304
Contributed capital	245,500	204,990	-	-
Total other financing sources	977,500	755,785	(181,205)	107,746
Revenue and other financing sources over expenditures	\$ -	\$ 4,888	\$ 4,888	\$ 491

Town of Morehead City, North Carolina

Water and Sewer Rebatable Capital Reserve Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

Year Ended June 30, 2008

With Comparative Actual Amounts For The Year Ended June 30, 2007

	2008			2007
	Budget	Actual	Variance, with Final Budget	Actual
Revenue				
Contributed capital	\$ 8,000	\$ 14,181	\$ 6,181	\$ 44,576
Interest	12,000	20,618	8,618	22,149
Total revenue	20,000	34,799	14,799	66,725
Other financing sources (uses)				
Transfers out:				
Water and sewer fund	(10,000)	-	10,000	-
Water/sewer improvement capital project	-	-	-	(77,297)
Water and sewer capital project fund	(217,000)	(194,899)	22,101	(55,304)
Fund balance appropriated	207,000	-	(207,000)	-
Total other financing uses	(20,000)	(194,899)	(174,899)	(132,601)
 Revenue under other financing uses	 \$ -	 \$ (160,100)	 \$ (160,100)	 \$ (65,876)

Town of Morehead City, North Carolina

Water Treatment Capital Project Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

From Inception and for the Year Ended June 30, 2008

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Interest	\$ -	\$ -	\$ 47	\$ 47
Total revenue	-	-	47	47
Expenditures				
Engineering	50,000	-	-	-
Total expenditures	50,000	-	-	-
Revenue over (under) expenditures	(50,000)	-	47	47
Other financing sources				
Transfer from water & sewer fund	50,000	-	50,000	50,000
Total other financing sources	50,000	-	50,000	50,000
Revenue and other financing sources over expenditures	\$ -	\$ -	\$ 50,047	\$ 50,047

Town of Morehead City, North Carolina

Water Reuse Capital Project Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

From Inception and for the Year Ended June 30, 2008

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Restricted Intergovernmental				
CWMTF Reuse Grant	\$ 91,000	\$ -	\$ -	\$ -
Interest	-	-	212	212
Total revenue	91,000	-	212	212
Expenditures				
Water and sewer improvements	318,000	-	-	-
Interest	-	-	-	-
Total expenditures	318,000	-	-	-
Revenue over (under) expenditures	(227,000)	-	212	212
Other financing sources				
Transfer from water and sewer fund	227,000	-	227,000	227,000
Total other financing sources	227,000	-	227,000	227,000
Revenue and other financing sources over expenditures	\$ -	\$ -	\$ 227,212	\$ 227,212

Town of Morehead City, North Carolina

Auto Meter Read System Capital Project Fund
Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)
From Inception and for the Year Ended June 30, 2008

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Interest	\$ -	\$ -	\$ 327	\$ 327
Total revenue	-	-	327	327
Expenditures				
Water and sewer improvements	2,005,000	-	57	57
Total expenditures	2,005,000	-	57	57
Revenue over (under) expenditures	(2,005,000)	-	270	270
Other financing sources (uses)				
Transfers in:				
Water and Sewer Fund	350,000	-	350,000	350,000
Debt issued	1,750,000	-	-	-
Contingency	(95,000)	-	-	-
Total other financing sources	2,005,000	-	350,000	350,000
Revenue and other financing sources over expenditures	\$ -	\$ -	\$ 350,270	\$ 350,270

Town of Morehead City, North Carolina

Water/Sewer Extensions Capital Project Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

From Inception and for the Year Ended June 30, 2008

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Contributed Capital - Radio Island	\$ 931,147	\$ 586,458	\$ 127,160	\$ 713,618
Contributed Capital - SCYC	535,000	486,413	-	486,413
Contributed Capital - Mariners Point	930,004	425,739	382,056	807,795
Interest earned	-	49,455	20,534	69,989
Total revenue	2,396,151	1,548,065	529,750	2,077,815
Expenditures				
Water and sewer improvements	2,655,374	1,753,579	546,944	2,300,523
Total expenditures	2,655,374	1,753,579	546,944	2,300,523
Revenue under expenditures	(259,223)	(205,514)	(17,194)	(222,708)
Other financing sources				
Transfers in:				
Water & Sewer Rebatable Capital Reserve	77,297	77,297	-	77,297
Radio Island Capital Project Fund	403,000	391,912	-	391,912
Contingency	(221,074)	-	-	-
Total other financing sources	259,223	469,209	-	469,209
Revenue and other financing sources over (under) expenditures	\$ -	\$ 263,695	\$ (17,194)	\$ 246,501

Town of Morehead City, North Carolina

WWTP Improvement Capital Project Fund

Schedule of Revenue and Expenditures – Budget and Actual (Non-GAAP)

From Inception and for the Year Ended June 30, 2008

	Project Authorization	Prior Years	Current Year	Project to Date
Revenue				
Interest	\$ -	\$ -	\$ 4,577	\$ 4,577
Total revenue	-	-	4,577	4,577
Expenditures				
Water and sewer improvements	14,996,350	3,394,505	8,762,589	12,157,094
Interest	-	3,002	(3,002)	-
Total expenditures	14,996,350	3,397,507	8,759,587	12,157,094
Other financing sources				
Debt issued	15,000,000	2,114,680	8,713,860	10,828,540
Transfer from water/sewer rebatable fund	675,000	-	300,000	300,000
Contingency	(678,650)	-	-	-
Total other financing sources	14,996,350	2,114,680	9,013,860	11,128,540
Revenue and other financing sources over (under) expenditures	\$ -	(1,282,827)	\$ 258,850	\$ (1,023,977)

OTHER FINANCIAL INFORMATION

Other financial information includes additional detailed analysis of particular aspects of the Town's financial position or results of operations.

- Schedule of Ad Valorem Taxes Receivable
 - Analysis of Current Tax Levy
-

Town of Morehead City, North Carolina

Schedule of Ad Valorem Taxes Receivable
June 30, 2008

Year Ended June 30	Uncollected Balance June 30, 2007	Additions (Releases) Net	Collections and Credits	Uncollected Balance June 30, 2008
2007-2008	\$ -	\$ 4,858,498	\$ 4,813,095	\$ 45,403
2006-2007	48,956	(1,749)	33,183	14,024
2005-2006	13,432	(253)	2,398	10,781
2004-2005	11,659	(8,051)	1,250	2,358
2003-2004	8,758	(6,588)	930	1,240
2002-2003	3,857	-	590	3,267
2001-2002	199	-	42	157
2000-2001	328	-	32	296
1999-2000	908	-	32	876
1998-1999	135	-	32	103
1997-1998	103	-	33	70
	<u>\$ 88,335</u>	<u>\$ 4,841,857</u>	<u>\$ 4,851,617</u>	<u>78,575</u>

Less allowance for doubtful accounts

(37,798)

\$ 40,777

Reconciliation with revenues:

Taxes - Ad valorem, General Fund	\$ 4,850,736
Net collection adjustments	3,455
Amounts adjusted for tax discount	19,105
Less penalties and interest collected	<u>(21,679)</u>
Total collections and credits	<u>\$ 4,851,617</u>

Town of Morehead City, North Carolina

Analysis of Current Tax Levy
For the Year Ended June 30, 2008

	City Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 2,179,510,232	0.22	\$ 4,794,922	\$ 4,600,620	\$ 194,302
Late listing penalties			3,582	3,582	-
Total	2,179,510,232		4,798,504	4,604,202	194,302
Discoveries:					
Current year taxes	43,224,944	0.22	95,095	95,064	31
Prior year taxes	4,171,025	0.38	15,850	15,850	-
Other adjustments			171	171	-
Total	47,395,969		111,116	111,085	31
Abatements					
Current year taxes	22,229,335	0.22	48,905	41,567	7,338
Prior year taxes	290,809	0.38	1,105	1,105	-
Other adjustments	-		1,112	1,112	-
Total	22,520,144		51,122	43,784	7,338
Total property valuation	<u>2,204,386,057</u>				
Net levy			4,858,498	4,671,503	186,995
Uncollected taxes at June 30, 2008			45,403	23,671	21,732
Current year's taxes collected			<u>\$ 4,813,095</u>	<u>\$ 4,647,832</u>	<u>\$ 165,263</u>
Current levy collection percentage			<u>99.07%</u>	<u>99.49%</u>	<u>88.38%</u>

STATISTICAL SECTION

(Unaudited)

This part of the Town of Morehead City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government's overall financial health.

Contents	Page
Financial Trends	97
These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time	
Revenue Capacity	104
These schedules contain information to help the reader assess the government's most significant local revenue source, property taxes.	
Debt Capacity	108
These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	
Demographic and Economic Information	114
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	
Operating Information	118
These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	

Town of Morehead City, North Carolina

Net Assets By Component
Last Five Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year				
	2004	2005	2006	2007	2008
Governmental activities:					
Invested in capital assets, net of related debt	\$ 5,343,984	\$ 6,969,774	\$ 7,368,834	\$ 11,334,954	\$ 14,487,313
Restricted	206,075	59,502	67,442	17,982	44,853
Unrestricted	3,941,879	4,388,933	5,429,501	5,995,760	6,110,999
Total governmental activities net assets	\$ 9,491,938	\$ 11,418,209	\$ 12,865,777	\$ 17,348,696	\$ 20,643,165
Business-type activities:					
Invested in capital assets, net of related debt	\$ 16,648,998	\$ 16,859,995	\$ 18,392,723	\$ 21,246,564	\$ 22,276,242
Unrestricted	5,112,878	5,904,172	5,909,873	6,272,564	6,784,898
Total business-type activities net assets	\$ 21,761,876	\$ 22,764,167	\$ 24,302,596	\$ 27,519,128	\$ 29,061,140
Primary government:					
Invested in capital assets, net of related debt	\$ 21,992,982	\$ 23,829,769	\$ 25,761,557	\$ 32,581,518	\$ 36,763,555
Restricted	206,075	59,502	67,442	17,982	44,853
Unrestricted	9,054,757	10,293,105	11,339,374	12,268,324	12,895,897
Total primary government net assets	\$ 31,253,814	\$ 34,182,376	\$ 37,168,373	\$ 44,867,824	\$ 49,704,305

GASB Statement No. 34 Implemented in Fiscal Year 2004

Town of Morehead City, North Carolina

Changes In Net Assets
Last Five Fiscal Years
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year				
	2004	2005	2006	2007	2008
Expenses:					
Governmental activities:					
General government	\$ 1,069,653	\$ 1,062,169	\$ 1,273,118	\$ 1,481,178	\$ 1,500,379
Public safety	4,180,633	4,481,960	4,683,022	5,070,021	5,685,970
Highways and streets	807,138	667,372	711,562	359,256	913,660
Economic and physical development	57,679	10,573	6,505	-	-
Cultural and recreation	713,564	702,866	719,270	408,615	935,483
Interest on long-term debt	82,633	81,946	80,666	130,978	92,389
Total governmental activities expenses	6,911,300	7,006,886	7,474,143	7,450,048	9,127,881
Business-type activities:					
Water and sewer	2,985,469	2,720,098	3,342,171	3,586,411	4,317,521
Solid waste	754,519	677,425	848,223	774,657	798,825
Total business-type activities expenses	3,739,988	3,397,523	4,190,394	4,361,068	5,116,346
Total primary government expenses	10,651,288	10,404,409	11,664,537	11,811,116	14,244,227
Program revenue:					
Governmental activities:					
Charges for services					
General government	311,478	315,251	339,861	86,862	63,521
Public safety	632,978	750,517	681,881	799,982	720,403
Highways and streets	-	27,390	-	46,515	10,472
Cultural and recreation	97,952	97,370	91,559	151,042	118,773
General government	1,462	-	-	45,615	2,135
Public safety	451,368	423,771	468,919	209,490	269,149
Highways and streets	226,546	476,981	247,417	425,220	337,333
Cultural and recreation	8,125	115,000	298	292,621	55,000
Capital grants and contributions					
Highways and streets	-	107,360	21,484	-	-
Economic and physical development	57,650	10,557	-	-	-
Cultural and recreation	314,000	202,300	16,194	277,419	797,500
Total governmental activities program revenue	2,101,559	2,526,497	1,867,613	2,334,766	2,374,286
Business-type activities:					
Charges for services:					
Water and sewer	2,836,560	3,101,515	3,406,037	3,846,383	4,187,986
Solid waste	681,135	702,697	729,613	747,112	757,122
Operating grants and contributions	91,867	-	125,663	-	-
Capital grants and contributions	2,120,618	461,574	1,243,927	2,593,703	1,388,956
Total business-type activities program revenue	5,730,180	4,265,786	5,505,240	7,187,198	6,334,064
Total primary government program revenue	7,831,739	6,792,283	7,372,853	9,521,964	8,708,350

(Continued)

Town of Morehead City, North Carolina

Changes In Net Assets (Continued)
Last Five Fiscal Years
(accrual basis of accounting)
(Unaudited)

	Fiscal Year				
	2004	2005	2006	2007	2008
Net (expense) revenue:					
Governmental activities	(4,809,741)	(4,480,389)	(5,606,530)	(5,115,282)	(6,753,595)
Business-type activities	1,990,192	868,263	1,314,846	2,826,130	1,217,718
Total primary government net expense	(2,819,549)	(3,612,126)	(4,291,684)	(2,289,152)	(5,535,877)
General revenue and other changes in net assets:					
Governmental activities:					
Taxes:					
Property taxes, levied for general purpose	3,965,340	4,093,114	4,398,749	4,581,817	5,514,458
Local option sales tax	1,409,986	1,456,317	1,586,576	1,779,655	1,897,449
Other taxes	263,264	207,783	238,514	277,341	87,954
Unrestricted intergovernmental	469,781	544,198	561,558	819,157	998,888
Investment earnings, unrestricted	39,880	105,248	268,701	372,072	257,686
Miscellaneous income, unrestricted	-	-	-	1,768,159	1,291,629
Total governmental activities	6,148,251	6,406,660	7,054,098	9,598,201	10,048,064
Business-type activities:					
Investment earnings	90,648	134,028	223,583	390,402	324,294
Total business-type activities	90,648	134,028	223,583	390,402	324,294
Total primary government	6,238,899	6,540,688	7,277,681	9,988,603	10,372,358
Changes in net assets:					
Governmental activities	1,338,510	1,926,271	1,447,568	4,482,919	3,294,469
Business-type activities	2,080,840	1,002,291	1,538,429	3,216,532	1,542,012
Total primary government	\$ 3,419,350	\$ 2,928,562	\$ 2,985,997	\$ 7,699,451	\$ 4,836,481

Note: The Town began to report accrual information when it implemented GASB Statement 34 for the fiscal year ending June 30, 2004

Town of Morehead City, North Carolina

Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year			
	1999	2000	2001	2002
General Fund:				
Reserved	\$ 1,078,652	\$ 950,155	\$ 1,172,624	\$ 1,775,218
Unreserved:	2,536,321	2,608,027	2,567,956	1,645,814
Total General Fund	\$ 3,614,973	\$ 3,558,182	\$ 3,740,580	\$ 3,421,032
All Other Governmental Funds:				
Reserved	\$ 3,229	\$ 6,711	\$ 7,018	\$ 3,772
Unreserved, reported in:				
Special revenue funds	271,876	428,792	(540,827)	(533,386)
Capital projects funds	22,467	1,477,029	1,291,723	1,063,485
Total all other government funds	\$ 297,572	\$ 1,912,532	\$ 757,914	\$ 533,871

Fiscal Year					
2003	2004	2005	2006	2007	2008
\$ 1,028,373	\$ 1,184,141	\$ 852,185	\$ 1,009,261	\$ 1,369,881	\$ 1,295,931
2,535,868	2,711,541	3,714,260	4,189,048	3,976,579	3,036,393
\$ 3,564,241	\$ 3,895,682	\$ 4,566,445	\$ 5,198,309	\$ 5,346,460	\$ 4,332,324
\$ 183,670	\$ 343,467	\$ 635,137	\$ 855,428	\$ 536,360	\$ 424,139
(455,771)	268,446	(58,476)	529,141	49,027	433,635
256,344	(135,250)	(348,065)	413,970	633,262	1,255,086
\$ (15,757)	\$ 476,663	\$ 228,596	\$ 1,798,539	\$ 1,218,649	\$ 2,112,860

Town of Morehead City, North Carolina

Changes In Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year			
	1999	2000	2001	2002
Revenue:				
Taxes	\$ 2,554,346	\$ 2,653,480	\$ 2,737,129	\$ 3,251,976
Other taxes and licenses	1,185,158	1,234,247	1,148,324	1,192,864
Intergovernmental	1,770,297	1,937,340	1,819,108	2,335,305
Permits and fees	330,498	268,624	369,100	336,057
Sales and services	122,657	143,699	128,338	164,823
Investment earnings	163,012	243,601	311,858	97,520
Miscellaneous	90,158	91,531	138,591	505,563
Total revenue	6,216,126	6,572,522	6,652,448	7,884,108
Expenditures:				
General government	760,425	802,447	780,042	1,061,676
Public safety	2,938,595	3,165,197	3,357,682	3,659,836
Highway and streets	633,777	580,194	658,065	765,100
Culture and recreation	316,988	339,377	362,346	433,851
Economic and physical development	(1,000)	-	-	-
Capital outlay	670,174	1,629,118	2,091,690	2,204,712
Debt service:				
Interest	52,900	43,711	97,374	104,177
Principal	144,534	154,309	277,469	198,347
Total expenditures	5,516,393	6,714,353	7,624,668	8,427,699
Excess of revenue (under) expenditures	699,733	(141,831)	(972,220)	(543,591)
Other financing sources (uses):				
Transfers in	961,619	1,510,647	2,014,861	1,427,354
Transfers out	(961,619)	(1,510,647)	(2,014,861)	(1,427,354)
Debt issued	-	1,700,000	-	-
Total other financing sources	-	1,700,000	-	-
Net changes in fund balance	\$ 699,733	\$ 1,558,169	\$ (972,220)	\$ (543,591)
Debt service as a percentage of noncapital expenditures	4.07%	3.89%	6.77%	4.86%

Fiscal Year					
2003	2004	2005	2006	2007	2008
\$ 3,411,953	\$ 3,966,227	\$ 4,110,172	\$ 4,395,523	\$ 4,583,518	\$ 5,510,995
1,405,621	1,673,250	1,664,100	1,825,090	277,341	87,954
1,558,080	1,641,693	1,885,328	1,340,960	3,498,663	4,115,879
341,470	455,714	498,911	419,236	497,046	296,788
370,278	430,637	455,927	527,171	538,688	566,135
57,815	39,880	105,248	268,701	372,072	257,686
196,810	248,916	286,031	177,799	1,872,278	380,096
7,342,027	8,456,317	9,005,717	8,954,480	11,639,606	11,215,533
1,024,755	1,104,425	1,059,147	1,195,511	1,364,735	1,493,602
3,794,752	4,020,739	4,227,291	4,370,515	4,709,486	5,368,924
881,417	789,368	686,881	707,944	775,807	814,348
404,970	1,445,323	524,676	568,144	649,516	813,027
31,781	57,679	10,573	(52)	-	-
1,299,427	309,916	1,698,594	1,064,919	3,898,300	2,617,912
102,476	89,151	86,257	76,668	123,669	97,371
208,868	200,855	289,602	388,603	549,832	460,274
7,748,446	8,017,456	8,583,021	8,372,252	12,071,345	11,665,458
(406,419)	438,861	422,696	582,228	(431,739)	(449,925)
1,014,112	1,443,388	1,270,354	1,117,104	3,068,632	2,270,721
(1,014,112)	(1,443,388)	(1,270,354)	(1,117,104)	(3,068,632)	(2,270,721)
-	385,000	-	1,619,579	-	330,000
-	385,000	-	1,619,579	-	330,000
\$ (406,419)	\$ 823,861	\$ 422,696	\$ 2,201,807	\$ (431,739)	\$ (119,925)
4.83%	3.76%	5.46%	6.37%	8.24%	6.16%

Town of Morehead City, North Carolina

Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(Unaudited)

Fiscal Year Ending June 30	Real Property*	Personal Property*	Public Service Companies*	Total Assessed Value*	Total Direct Tax Rate	Estimated Actual Taxable Value*	Taxable Assessed Value as a Percentage of Actual Taxable Value of Real Property
1999	\$ 517,276,531	\$ 105,237,352	\$ 20,040,993	\$ 642,554,876	\$ 0.0040	\$ 708,650,998	88.67%
2000	538,727,824	113,296,753	17,624,673	669,649,250	0.0040	755,823,205	86.21%
2001	556,039,528	114,501,247	17,529,088	688,069,863	0.0040	857,947,282	77.15%
2002	727,274,541	110,876,927	21,097,620	859,249,088	0.0038	859,249,088	100.00%
2003	760,124,717	118,676,409	20,803,084	899,604,210	0.0038	947,778,852	94.04%
2004	792,471,863	128,599,744	21,544,709	942,616,316	0.0038	1,007,334,137	92.45%
2005	825,520,131	129,298,376	22,437,019	977,255,526	0.0038	1,104,771,797	86.62%
2006	891,984,091	152,464,411	19,185,995	1,063,634,497	0.0038	1,318,306,906	77.79%
2007	922,463,052	155,794,591	20,134,240	1,098,391,883	0.0038	1,715,353,314	60.44%
2008	1,989,594,948	185,678,265	29,112,844	2,204,386,057	0.0022	Not Available	Not Available

Source: Carteret County Tax Scrolls

Notes:

- 1 The North Carolina General Statutes require a revaluation of real property at least every eight years. Real property is valued at 100% of estimated value as of the date of the latest revaluation. The last revaluation was effective for the fiscal year ending June 30, 2008
- 2 Personal property is valued at 100% of estimated value.
- 3 Public service property is generally valued at 100% of estimated value. It may be valued at less than 100% in years in which the County's sales to assessment ratio on real property is less than 80%.
- 4 The Town bills and collects property taxes for real, public service, nonregistered motor vehicles, and personal property. Carteret County bills and collects property taxes for registered motor vehicles on behalf of the Town. The values reported above include property taxes billed and collected by the Town and County.

* Excludes tax exempt property.

Town of Morehead City, North Carolina

Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years

Fiscal Year Ending June 30,	Direct Rate Morehead City	Overlapping Rate Carteret County
1999	\$ 0.400	\$ 0.420
2000	0.400	0.500
2001	0.400	0.510
2002	0.380	0.400
2003	0.380	0.420
2004	0.380	0.420
2005	0.380	0.420
2006	0.380	0.420
2007	0.380	0.440
2008	0.022	0.023

Notes:

- 1 Source of County tax rates - Carteret County Tax Office.
- 2 Carteret County tax rates exclude fire/EMS district tax rates. These rates vary between districts and are nominal in amount

Town of Morehead City, North Carolina

Principal Property Tax Owners
Current Year and Nine Years Ago
(Unaudited)

Customer	Fiscal Year Ending June 30, 2008			Fiscal Year Ending June 30, 1999		
	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value
USPG Portfolio Two LLC	\$ 17,583,231	1	0.83			
Walmart Real Estate Business Trust	15,701,138	2	0.74			
Morehead Plaza LLC	14,257,867	3	0.67			
Southstar Holding Morehead LLC	13,657,722	4	0.64			
Old Towne Yacht Club	13,078,510	5	0.62			
Progress Energy Carolinas	12,200,337	6	0.58			
Shores Development	12,159,809	7	0.57			
ITAC 192 LLC	10,872,205	8	0.51			
Carolina Telephone	9,482,703	9	0.45	\$ 9,050,194	2	1.41
Carteret Investment Associates	8,475,596	10	0.40	2,721,989	10	0.42
Glimcher Properties, LTD				11,955,932	1	1.86
Carolina Power & Light				8,340,066	3	1.30
Maritime Hotel Ltd.				6,605,316	4	1.03
Alber Investments				6,495,775	5	1.01
Bally Refrigerated Boxes, Inc.				6,436,823	6	1.00
Harborview Enterprises				6,232,096	7	0.97
MCC Abbitt LLC				3,579,363	8	0.56
Bally Engineered Structures				3,115,266	9	0.48
Total	<u>\$ 127,469,118</u>		<u>6.01</u>	<u>\$ 64,532,820</u>		<u>10.04</u>

Notes:

- Values reported above include amounts for property billed and collected by the Town. It excludes values for registered motor vehicles billed and collected by Carteret County on behalf of the Town.

Town of Morehead City, North Carolina

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1999	\$ 2,372,555	\$ 2,348,968	99.01	\$ 21,003	\$ 2,369,971	99.89
2000	2,451,430	2,435,527	99.35	20,709	2,456,236	100.20
2001	2,536,006	2,522,603	99.47	13,138	2,535,741	99.99
2002	3,070,037	3,048,211	99.29	21,485	3,069,696	99.99
2003	3,224,010	3,202,279	99.33	18,142	3,220,421	99.89
2004	3,377,760	3,358,402	99.43	17,548	3,375,950	99.95
2005	3,508,734	3,496,785	99.66	9,581	3,506,366	99.93
2006	3,814,505	3,802,159	99.68	10,417	3,812,576	99.95
2007	3,925,936	3,914,535	99.71	7,611	3,922,146	99.90
2008	4,671,503	4,647,832	99.49	-	4,647,832	99.49

Source: Town of Morehead City tax reports.

Town of Morehead City, North Carolina

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

(Unaudited)

Fiscal Year	Governmental Activities			
	General Obligation Bonds	Installment Contracts	Notes Payable	Capital Leases
1999	\$ 60,344	\$ 849,238	\$ -	\$ -
2000	47,352	2,407,921	-	-
2001	33,064	2,144,739	-	-
2002	17,344	1,962,112	-	-
2003	-	1,770,588	-	-
2004	-	1,954,733	-	-
2005	-	1,665,131	-	-
2006	-	2,488,222	377,000	30,885
2007	-	1,954,748	370,412	21,245
2008	-	1,841,615	363,553	10,965

Note: Details regarding the City's outstanding debt may be found in the notes to the financial statements

Business-Type Activities			Total Primary Government	Population Estimate	Total Debt Per Capita
General Obligation Bonds	Installment Contracts	Notes Payable			
\$ 693,956	\$ 6,567,321	\$ 832,081	\$ 9,002,940	7,670	\$ 1,174
544,548	4,533,376	1,381,823	8,915,020	7,603	1,173
380,236	4,298,253	1,564,635	8,420,927	7,714	1,092
199,456	5,729,542	1,564,635	9,473,089	7,692	1,232
-	5,365,324	1,932,194	9,068,106	7,731	1,173
-	4,983,032	2,865,693	9,803,458	7,825	1,253
-	4,569,789	1,861,088	8,096,008	8,092	1,124
-	3,294,514	2,726,088	8,916,709	8,209	1,086
-	2,951,335	5,283,522	10,581,262	8,390	1,261
-	2,593,358	13,811,891	18,621,382	8,691	2,143

Town of Morehead City, North Carolina

Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	General Bonded Debt Outstanding	Estimated Actual Taxable Value	Percentage of Actual Taxable Value of Property	Population Estimate	Total debt Per Capita
1999	\$ 754,300	\$ 708,650,998	0.11	7,670	\$ 98
2000	591,900	755,823,205	0.08	7,603	78
2001	413,300	857,947,282	0.05	7,714	54
2002	216,800	859,249,088	0.03	7,692	28
2003	-	947,778,852	0.00	7,731	-
2004	-	1,007,334,137	0.00	7,825	-
2005	-	1,104,771,797	0.00	8,092	-
2006	-	1,318,306,906	0.00	8,209	-
2007	-	1,715,353,314	0.00	8,390	-
2008	-	Not Available	Not Available	8,691	-

Note: Details regarding the City's outstanding debt may be found in the notes to the financial statements

Town of Morehead City, North Carolina

Direct and Overlapping Governmental Activities Debt
For the Year Ended June 30, 2008
(Unaudited)

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Carteret County Debt	\$ 75,155,000	11.38%	\$ 8,552,639
Subtotal, overlapping debt	<u>\$ 75,155,000</u>		<u>\$ 8,552,639</u>
Town Direct Debt	-	100%	<u>-</u>
Total direct and overlapping debt			<u><u>\$ 8,552,639</u></u>

Sources:

Notes:

- 1 Overlapping governments are those that coincide, at least in part, with the geographical boundaries of the Town. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Morehead City. This process recognizes that, when considering the Town's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident and therefore responsible for repaying the debt of each overlapping government.
- 2 The source of County debt is the Carteret County Finance Office.

Town of Morehead City, North Carolina

Legal Debt Margin Information
 Last Ten Fiscal Years
(dollars in thousands)
 (Unaudited)

	1999	2000	2001	2002
Debt limit	\$ 51,404,390	\$ 53,571,940	\$ 55,045,589	\$ 68,933,074
Total net debt applicable to limit	60,344	47,352	33,064	17,344
Legal debt margin	<u>\$ 51,344,046</u>	<u>\$ 53,524,588</u>	<u>\$ 55,012,525</u>	<u>\$ 68,915,730</u>
Total net debt applicable to the limit as a percentage of debt limit	0.12%	0.09%	0.06%	0.03%

Legal Debt Margin Calculation for Fiscal Year 2008
 Assessed value

\$ 2,204,386,057

Debt limit (8% of assessed value)

176,350,885

Legal debt margin

\$ 176,350,885

2003	2004	2005	2006	2007	2008
\$ 71,968,337	\$ 75,409,305	\$ 76,180,442	\$ 85,090,760	\$ 87,871,351	\$ 176,350,885
-	-	-	-	-	-
\$ 71,968,337	\$ 75,409,305	\$ 76,180,442	\$ 85,090,760	\$ 87,871,351	\$ 176,350,885
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Town of Morehead City, North Carolina

Demographic and Economic Statistics
Last Ten Fiscal Years
(Unaudited)

Fiscal Year Ending June 30,	Population (1)	Median Age (1)	Carteret County Public School Enrollment (2)	Unemployment Rate (3)	Per Capita Personal Income (4)	Personal Income (4)
1999	7,670	41.82	8,426	5.7%	\$ 24,345	\$ 1,444,680
2000	7,603	42.47	8,326	4.3%	\$ 25,756	\$ 1,529,989
2001	7,714	43.01	8,187	5.2%	\$ 26,933	\$ 1,611,284
2002	7,692	43.53	8,100	6.3%	\$ 26,874	\$ 1,618,781
2003	7,731	44.08	8,126	6.2%	\$ 27,642	\$ 1,685,144
2004	7,825	44.64	8,181	5.4%	\$ 29,177	\$ 1,803,484
2005	8,092	45.19	8,237	5.0%	\$ 30,961	\$ 1,945,862
2006	8,209	N/A	8,056	4.6%	\$ 32,086	\$ 2,029,585
2007	8,390	N/A	8,185	4.5%	N/A	N/A
2008	8,691	N/A	8,371	4.3%	N/A	N/A

Notes:

- 1 Population and median age provided by NC Office of Planning-State Demographer
- 2 Public school enrollment provided by the Carteret County Board of Education
- 3 Unemployment provided by the NC Employment Security Commission
- 4 Per capita personal income and personal income provided by the U S Bureau of Economic Analysis. Information is available at the county level and presented on that basis. (In thousands)

N/A - information not yet available for the year listed.

Town of Morehead City, North Carolina

Principal Employers

Current Year

(Unaudited)

Employer	2007		Percentage of Total City Employment
	Employees	Rank	
Carteret General Hospital	1,095	1	N/A
Wal-mart Associates, Inc.	544	2	N/A
Carteret County Board of Education	377	3	N/A
Carteret Community College	348	4	N/A
Food Lion, Inc.	232	5	N/A
Lowes Food	207	6	N/A
Bally Refrigerated Boxes, Inc.	171	7	N/A
Lowes Home Improvement	161	8	N/A
Town of Morehead City	142	9	N/A
Creative Outlet	107	10	N/A

Notes:

- 1 2007 was most recent year for which information is available and includes full-time and part-time workers. Information not available for prior years.
- 2 Source of information is Employment Security Commission of North Carolina.
- 3 N/A = Information not available.

Town of Morehead City, North Carolina

Full-Time Equivalent Town Government Employees By Functions/Programs
Last Ten Fiscal Years
(Unaudited)

<u>Functions/Program</u>	Full-Time Equivalent Employees as of June 30									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
General Government:										
Administration	4	4	4	4	4	4	4	4	4	4
Finance	6	6	6	6	6	6	6	6	5	5
Building and grounds	8	6	6	6	5	5	5	4	4	4
Garage	1	1	1	1	1	1	1	1	1	1
Public Safety:										
Police	51	48	48	47	48	46	46	46	45	42
Fire/EMS	33	27	21	21	20	20	20	20	20	20
Planning and inspections	7	7	7	6	5	5	5	5	5	5
Transportation:										
Streets	10	9	9	9	9	9	9	8	7	7
Recreation and culture:										
Recreation	8	7	7	7	7	7	7	7	7	7
Library	4	4	2	2	2	-	-	-	-	-
Water and sewer:										
Billing and collections	4	4	3	3	3	3	3	3	4	4
Water distrib. and sewer coll.	14	14	13	13	13	13	13	13	12	12
Wastewater treatment	6	5	5	5	5	5	5	5	5	5
Solid waste:										
Operations	1	1	1	1	1	1	1	1	1	-
Total	157	143	133	131	129	125	125	123	120	116

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Town of Morehead City, North Carolina

Operating Indicators By Function/Program
Last Ten Fiscal Years
(Unaudited)

Function/Program	1999	2000	2001	2002
Function/Program				
Public Safety				
Police calls dispatched ##	50,115	59,885	74,988	69,248
Number of building permits issued ##	1,035	1,227	865	1,181
Construction value of building permits issued ##	23,518,678	32,204,823	30,785,749	44,847,505
Fire/EMS area served in square miles ##	12.07	12.07	12.07	12.07
Fire calls answered ##	671	627	562	567
EMS calls answered ##	1,445	1,307	1,693	1,721
Highways and Streets				
Miles of streets maintained **	39.49	39.95	41.08	41.08
Water/Sewer				
Number of customers served **	4,253	4,261	4,769	4,803
Daily avg. gallons water consumption ##	1,184,000	1,218,000	1,196,000	1,072,000
Daily avg. gallons waste water treated ##	1,253,000	1,556,000	1,504,000	1,114,000
Sanitation				
Solid waste collected annually (tons) **	3,121	3,087	2,949	3,126
Recyclables collected annually (tons) **	355	320	365	362

Notes:

- 1 Items noted with ## are presented on a calendar year basis.
- 2 Items noted with ** are presented on a fiscal year basis.
- 3 N/A = information not available

Calendar Year					
2003	2004	2005	2006	2007	2008
65,118	60,180	92,714	97,205	98,801	96,127
825	852	1,030	1,137	1,000	388
44,094,957	60,409,802	63,685,536	85,272,028	94,425,714	44,053,841
12.25	12.25	12.47	12.51	14.17	N/A
625	786	855	1,156	814	772
1,851	1,835	1,979	2,378	1,433	1,619
41.83	43.28	43.30	44.11	44.11	47.15
4,493	4,674	4,588	5,052	5,218	5,299
1,151,000	1,257,900	1,301,000	1,284,000	1,289,000	1,254,000
1,117,000	1,827,000	1,544,903	1,358,846	1,416,000	1,321,000
3,049	3,395	3,565	3,611	3,733	3,392
314	301	325	366	321	369

Town of Morehead City, North Carolina

Capital Asset Statistics By Function/Program
Last Ten Fiscal Years
(Unaudited)

	1999	2000	2001	2002
Function/Program				
General Government				
Number of cemeteries	3	3	3	3
Public Safety				
Number of police stations/substations	1	1	3	3
Number of patrol units	41	41	40	45
Number of Fire/EMS stations	3	2	2	2
Number of engines	4	5	5	5
Number of ambulances	2	2	2	2
Highways and Streets				
Miles of streets	39.49	39.95	41.08	41.08
Culture and Recreation				
Number of parks	7	7	7	8
Number of public water accesses	N/A	N/A	N/A	N/A
Park acreage	14.5	14.5	14.5	70.5
Tennis and multipurpose courts	6	6	6	6
Playgrounds	4	4	4	4
Ballfields	2	2	2	2
Number of libraries	0	0	0	0
Water/Sewer				
Miles of water mains	59.77	61.87	67.54	67.54
Miles of sanitary sewers	59.30	62.46	71.00	71.00
Number of treatment plants	1	1	1	1
Sanitation				
Number of yard waste trucks	0	1	1	1

Notes:

1) Information not available for items noted N/A.

Calendar Year					
2003	2004	2005	2006	2007	2008
3	3	3	3	3	3
4	4	4	4	3	3
45	44	46	44	44	44
2	2	2	2	3	4
5	5	3	4	5	6
2	2	2	3	3	3
41.83	43.28	43.30	44.11	44.11	47.15
8	9	9	9	10	13
5	7	7	10	9	19
70.5	87.0	87.0	87	87	74
6	8	8	8	8	7
4	4	4	4	4	4
2	9	9	9	9	8
0	1	1	1	1	1
68.00	70.00	70.00	71.00	76.00	78.82
72.00	73.10	73.10	73.80	74.00	76.95
1	1	2	2	2	2
1	1	2	2	2	2

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COMPLIANCE SECTION

The Compliance Section contains various schedules and Auditor opinions reflecting State and Local matching participation in various projects and programs of the Town. The Single Audit Act Amendment of 1996 established audit requirements for State and Local governments that receive Federal assistance. The audit requirements were established to insure that audits are conducted on an organization-wide basis, rather than on a grant-by-grant basis.

McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report
on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

To the Honorable Mayor and
Members of the Town Council
Town of Morehead City, North Carolina

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Morehead City, North Carolina, as of and for the year ended June 30, 2008, which collectively comprise Town of Morehead City's basic financial statements, and have issued our report thereon dated November 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town of Morehead City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Morehead City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Town of Morehead City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Morehead City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor, members of the Town Council, management, federal and State awarding agencies, pass-through entities and the North Carolina Department of the State Treasurer and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Morehead City, North Carolina
November 30, 2008

McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report on Compliance
With Requirements Applicable to Each Major Federal Program
and on Internal Control Over Compliance in Accordance With
OMB Circular A-133 and the State Single Audit Implementation Act**

To the Honorable Mayor and
Members of the Town Council
Town of Morehead City, North Carolina

Compliance

We have audited the compliance of Town of Morehead City, North Carolina, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to its major federal program for the year ended June 30, 2008. Town of Morehead City's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Town of Morehead City's management. Our responsibility is to express an opinion on Town of Morehead City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Town of Morehead City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Town of Morehead City's compliance with those requirements.

In our opinion, Town of Morehead City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Town of Morehead City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Town of Morehead City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Morehead City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Mayor, members of the Town Council, management, federal awarding agencies, pass-through entities and the North Carolina Department of the State Treasurer and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Morehead City, North Carolina
November 30, 2008

McGladrey & Pullen

Certified Public Accountants

**Independent Auditor's Report
on Compliance With Requirements Applicable
to Each Major State Program and on Internal Control
Over Compliance in Accordance With Applicable Sections
of OMB Circular A-133 and the State Single Audit Implementation Act**

To the Honorable Mayor and
Members of the Town Council
Town of Morehead City, North Carolina

Compliance

We have audited the compliance of Town of Morehead City, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to its major State program for the year ended June 30, 2008. Town of Morehead City's major State program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major State program is the responsibility of Town of Morehead City's management. Our responsibility is to express an opinion on Town of Morehead City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable sections of OMB Circular A-133 as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about Town of Morehead City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Town of Morehead City's compliance with those requirements.

In our opinion, Town of Morehead City complied, in all material respects, with the requirements referred to above that are applicable to its major State program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Town of Morehead City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered Town of Morehead City's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Morehead City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a State program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a State program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a State program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a State program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Mayor, members of the Town Council, management, State awarding agencies, pass-through entities and the North Carolina Department of the State Treasurer and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Morehead City, North Carolina
November 30, 2008

Town of Morehead City, North Carolina

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2008

Section 1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported
- Noncompliance material to financial statements noted _____ yes X no

Federal Awards

Internal control over major Federal program:

- Material weakness(es) identified? _____ Yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X none reported

Type of auditor's report issued on compliance for major Federal program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X no

Identification of major Federal programs:

<u>CFDA #</u>	<u>Program Name</u>
66.458	Clean Water State Revolving Loan Fund

(Continued)

Town of Morehead City, North Carolina

Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2008

Dollar threshold used to distinguish between Type A and
Type B Programs \$300,000

Auditee qualified as low-risk auditee? No

State Awards

Internal control over major State program:

- Material weakness(es) identified? Yes X no
- Significant deficiency(ies) identified
that are not considered to be
material weaknesses? Yes X none reported

Type of auditor's report issued on compliance for major State program: Unqualified

Any audit findings disclosed that are required to be
reported in accordance with the State Single
Audit Implementation Act? Yes X no

Identification of major State programs:

<u>NC Object #</u>	<u>Program Name</u>
N/A	Parks and Recreation Trust Fund (PARTF)

(Continued)

Town of Morehead City, North Carolina

Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2008

Section 2. Financial Statement Findings

None

Section 3. Federal Award Findings and Questioned Costs

None

Section 4. State Award Findings and Questioned Costs

None.

Town of Morehead City, North Carolina

**Corrective Action Plan
For the Year Ended June 30, 2008**

Section 2. Financial Statement Findings

No corrective action plan is required in the current year.

Section 3. Federal Award Findings and Questioned Costs

No corrective action plan is required in the current year.

Section 4. State Award Findings and Questioned Costs

No corrective action plan is required in the current year.

Town of Morehead City, North Carolina

**Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2008**

There are no prior audit findings (as that term is defined in OMB Circular A-133) that require reporting in this schedule.

Town of Morehead City, North Carolina

Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2008
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Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Pass-Through Grantor's Number	Expenditures		
			Federal Direct & Pass-Through	State	Local
Federal Awards:					
US Department of Housing and Urban Development Pass through East Carolina Regional Housing Authority Public Housing Drug Elimination Program	14.854		\$ 27,772	\$ -	\$ -
Total US Department of HUD			27,772	-	-
US Department of Justice					
Direct Programs:					
COPS Fast	16.592	N/A	9,866	-	6,548
Pass through NC Department of Crime Control and Public Safety					
New Patrol Equipment	16.738	N/A	6,750	-	2,253
Drug Interdiction	16.738	N/A	4,404	-	1,468
Pass through Carteret County Board of Education:					
School Resource Officer	16.594	N/A	102,823	-	-
Total US Department of Justice			123,843	-	10,269
US Department of Homeland Security					
Direct Programs:					
Assistance to Firefighters	97.044	N/A	33,295	-	1,752
Total US Department of Homeland Security			33,295	-	1,752
US Department of Transportation					
Pass-through NC Department of Transportation					
Sidewalk Enhancement Grant	20.205		5,600	-	-
Total US Department of Transportation			5,600	-	-
US Department of Commerce					
National Oceanic and Atmospheric Administration					
Pass-through NC Department of Environment and Natural Resources					
Coastal and Estuarine Land Conservation Program	11.419		20,182		6,728
Total US Department of Agriculture			20,182		6,728
US Department of Interior					
Direct Programs:					
Land and Water Conservation Fund Grants	15.916		196,919	-	328,999
Total US Department of Interior			196,919	-	328,999

(Continued)

Town of Morehead City, North Carolina

Schedule of Expenditures of Federal and State Awards (Continued)

For the Fiscal Year Ended June 30, 2008

Page 2 of 2

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Pass-Through Grantor's Number	Expenditures		
			Federal Direct & Pass-Through	State	Local
Environmental Protection Agency					
Pass through: NC Department of Environment and Natural Resources - Division of Water Quality					
Clean Water State Revolving Loan Fund	66.458		M \$ 6,571,942	\$ 2,190,647	\$ -
Total Environmental Protection Agency			6,571,942	2,190,647	-
State Awards:					
NC Department of Environment and Natural Resources					
Mosquito Control		N/A	-	10,184	10,184
Bryan St. Stormwater Drainage Grant		N/A	-	13,636	1,364
Public Beach and Waterfront Access-Newport River		N/A	-	17,344	5,157
Division of Water Resources					
Waterfront Dock MTC		N/A	-	27,604	30,328
NC Coastal Management Program					
CAMA Planning Grant		N/A		4,375	
Division of Parks and Recreation					
Part F Grant		N/A	M -	372,253	297,977
Total NC Department of Environment and Natural Resources			-	445,396	345,010
NC Department of Transportation					
Nonstate System Street Aid Allocation		N/A	-	299,699	-
Total NC Department of Transportaion			-	299,699	-
NC Department of Health and Human Services					
Division of Youth Services					
Pass through Carteret County:					
Teen Court Grant		N/A	-	50,557	-
Total federal expenditures			<u>\$ 6,979,553</u>		
Total state expenditures				<u>\$ 2,986,299</u>	
Total local expenditures					<u>\$ 692,758</u>

See Notes to the Schedule of Expenditures of Federal and State Awards.

Town of Morehead City, North Carolina

**Notes to the Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2008**

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Town of Morehead City, North Carolina and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Loans Outstanding

The Town of Morehead City has outstanding loan balances from federal and State funding sources that are not required to be presented within the schedule of expenditures of federal and State Awards because there are no continuing requirements beyond the repayment of the loan balances in accordance with loan agreement provisions. The outstanding balances of the Safe Drinking Water Revolving Loan Fund, the Drinking Water Bond, the Clean Water Revolving Loan Fund, and the Clean Water State Revolving Loan Fund at June 30, 2008 were \$1,275,000, \$858,351, \$850,000 and \$10,828,540, respectively.